

**Regional Inspector General for Audit
Singapore**

**AUDIT OF
USAID/BANGLADESH'S COOPERATIVE AGREEMENTS WITH
POPULATION SERVICES INTERNATIONAL
BANGLADESH**

**Audit Report No. 5-388-93-15-N
September 16, 1993**



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BEFORE ANY INFORMATION IS RELEASED TO
THE PUBLIC.**



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

September 16, 1993

TO: Frank J. Young, Acting Mission Director
USAID/Bangladesh

FROM: Richard C. Thabet, RIG/A/Singapore

SUBJECT: Audit of USAID/Bangladesh's Cooperative Agreements with
Population Services International - Bangladesh
Report No. 5-388-93-15-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm of Price Waterhouse Calcutta) for your action. This financial audit of USAID/Bangladesh's cooperative agreements with Population Services International (PSI) covered the period from January 1, 1990 through December 31, 1991. During this period, the PSI reported it had received \$10.6 million and spent \$9.4 million in Bangladesh. The background on these cooperative agreements is presented on pages 1 and 2 of the report.

The audit objectives were to:

- Determine whether PSI's Fund Accountability Statement presents fairly the receipts and expenses under the contract;
- Report on PSI's system of internal controls; and
- Report on PSI's compliance with applicable laws, regulations, and terms of the agreements.

The audit report concluded that PSI's:

- Fund Accountability Statement presents fairly the receipts and expenditures under the cooperative agreements;

- Internal controls had two reportable conditions in the areas of cash collection and accounting for non-expendable properties; and
- Operations complied in all material respects with applicable laws, regulations, and terms of the cooperative agreements.

This audit report contains eight findings and recommendations which includes questioned costs of \$265,803 and potential interest savings of at least \$32,500. In their response, PSI officials generally agreed with these findings and recommendations except for finding 5 and parts of finding 1. Their comments are summarized after each finding in the report and presented in their entirety as Appendix 1.

USAID/Bangladesh needs to ensure that necessary action is taken to correct the problems noted in this audit. In addition, the following recommendations are being made and will be included in the Inspector General's recommendation follow-up system:

Recommendation No. 1: We recommend that USAID/Bangladesh resolve the \$265,803 in ineligible questioned costs (see Annex A) and at least \$32,500 in interest loss (see finding 2 - \$4,129, finding 5 - \$28,371 and finding 6 - to be determined) with PSI and recover any amounts due.

Recommendation No. 2: We recommend that USAID/Bangladesh verify that PSI establishes and implements a system to: (a) include voucher numbers for each item in the non-expendable property register and (b) check that cash collections are promptly deposited.

Recommendation No. 3: We recommend that USAID/Bangladesh obtain a cost-benefit analysis determination from PSI on the need for buying fidelity and cash-in-transit insurance, review the reasonableness of this determination and take appropriate action based on the review.

We appreciate the courtesies and cooperation USAID/Bangladesh and PSI extended to the auditors and our staff during the course of this audit.

Please advise me within 30 days of any actions planned or taken to close the above recommendations.

Attachment: a/s

POPULATION SERVICES INTERNATIONAL (PSI) BANGLADESH
OPERATING THROUGH
SOCIAL MARKETING COMPANY (SMC).

SUPPORT OF USAID/BANGLADESH'S
FAMILY PLANNING AND HEALTH SERVICES
COOPERATIVE AGREEMENT NOS. 388-0071-A-00-7081-00
AND 388-0050-A-00-5031-00

AUDITORS' REPORT

PriceWaterhouse



**POPULATION SERVICES INTERNATIONAL (PSI)-BANGLADESH
OPERATING THROUGH SOCIAL MARKETING COMPANY (SMC).**

**SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND
HEALTH SERVICES**

**COOPERATIVE AGREEMENT NOS.388-0071-A-00-7081-00
AND 388-0050-A-00-5031-00**

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Price Waterhouse

Mr. Richard C. Thabet,
Regional Inspector General for Audit,
U.S. Agency for International Development,
Singapore.

Dear Mr. Thabet,

This report presents the results of our financial audit of Population Services International, Bangladesh (PSI/Bangladesh) operating through the Social Marketing Company (SMC) pertaining to its Cooperative Agreement Nos.388-0071-A-00-7081-00 and 388-0050-A-00-5031-00 with USAID/Bangladesh for the period January 1, 1990 to December 31, 1991. The audit only covers operations in Bangladesh.

BACKGROUND

Bangladesh is a country with a predominantly rural population of 116 million in an area the size of Wisconsin living under conditions of extreme poverty and deprivation. Even though over 80 percent of the population is rural based, the population density (about 2,000 per square mile) is only exceeded by the city states of Hong Kong and Singapore. It has nearly all the major social and economic problems which plagues all the developing nations - high rates of unemployment, illiteracy, mortality, and malnutrition. The basic problem which underlines these burdens is simple but overwhelming: there are too many people living on too small a land area with insufficient infrastructure, natural resources, capital and technical skills to significantly increase real per-capita income.

Development efforts have become, in essence, attempts to stay ahead of the population growth rate and prevent social and economic deterioration. Projections show that even with the most optimistic scenario, assuming that replacement level fertility (0% growth) is reached by 2035, the population of Bangladesh will only become stationary by the 21st century, when the total population is projected to be about four times it is now.

The Government of Bangladesh (GOB) instituted a national family planning program in 1972 but it faced severe constraints. Factors like inconsistent administrative policies, cultural structures within the population and a weak infrastructure affected the effectiveness of the program in many ways. Statistics, however, have indicated some level of success but the fact remains; in the long run, development assistance will likely have little impact unless Bangladesh is able to substantially reduce its rate of population growth.

Given the objectives of the GOB in this sector, the Family Planning and Health Services Project was instituted through an agreement with USAID/Bangladesh (USAID/B) signed on August 31, 1987. The purpose of the project is to improve the coverage and quality of family planning and maternal and child health services in Bangladesh. This project has four components - support for the GOB in family planning activities, maternal and child health activities, social marketing and non-governmental activities, and supply of commodities.

In line with these activities, Population Services International (PSI) was therefore given two grants through Cooperative Agreements (Nos.388-0071-A-00-7081-00 and 388-0050-A-00-5031-00) to fund national personnel costs, transport, equipment, supplies and costs of research. In addition, contraceptive commodities are procured by AID/Washington and delivered to PSI and SMC for distribution. Efforts under these Cooperative Agreements are primarily to promote, market and sell various brands of contraceptives and oral rehydration medication throughout the country.

The first Cooperative Agreement (No.388-0071-A-00-7081-00) dealing with contraceptives was signed on August 20, 1984 and expires on April 30, 1993. The second agreement (No.388-0050-A-00-5031-00) dealing with oral rehydration therapy, was signed on July 1, 1985 and will expire on September 30, 1994. The most recent amendments to the above mentioned Cooperative Agreements were made on March 29, 1990 for Agreement No.388-0071-A-00-7081-00 and on March 14, 1991 for Agreement No.388-0050-A-00-5031-00.

PSI/Bangladesh (the Bangladesh affiliate of PSI) in turn entered into an agreement with Social Marketing Project (SMP) [a parastatal organisation begun in 1974 with the primary objective of motivating people for family planning and distribution of non clinical contraceptives] on January 22, 1990 under which SMP was to carry out the activities under the two Cooperative Agreements on their behalf. SMP was later converted into a full fledged non-profit private limited company i.e. Social Marketing Company (SMC). Accordingly the funds received by PSI were forwarded by them to SMC who have incurred the necessary expenditures on their behalf, and maintained the books and records.

Receipts reported by PSI during the period of audit amounted to \$10,556,849 and the disbursements reported by PSI and SMC during the same period amounted to \$ 9,419,939. Transactions representing all receipts (reimbursements, advances, and sale proceeds from commodities) and expenditures from January 1, 1990 to December 31, 1991 were subjected to audit. Costs incurred during the period of this audit amounted to US\$ 10,580,596.52 consisting of costs incurred in Bangladesh US\$ 9,203,399 and US incurred costs US\$ 1,377,197.52 by PSI's home office in Washington (latter not covered by this audit).

AUDIT OBJECTIVES AND SCOPE

A financial audit was performed in accordance with generally accepted U.S. Government Auditing Standards.

The objectives of the audit were to :

1. Determine whether PSI's Fund Accountability Statement relating to Cooperative Agreement Nos.388-0071-A-00-7081-00 and 388-0050-A-00-5031-00 fairly presents the receipts and expenditure in Bangladesh for the period January 1, 1990 to December 31, 1991 in conformity with the terms of these Cooperative Agreements with the Agency for International Development (A.I.D) and identify all costs which were not fully supported with adequate records or which were not allowable/reasonable or allocable under the terms of the Agreement.
2. Report on PSI's internal accounting controls.
3. Report on PSI's compliance with the applicable laws, regulations and agreement terms.

The Scope of our work included the following general procedures :

1. Holding meetings with USAID/Bangladesh, PSI,SMC and USAID Regional Inspector General for Audit/Singapore ("RIG/A") officials.
2. Reviewing the Cooperative Agreements and appropriate amendments, OMB circulars, AID hand book regulations, prior period audit reports on SMC's financial statements and financial and voucher verification review, correspondence and minutes of meetings between USAID/B and PSI as well as project progress reports maintained by both PSI and USAID/B.
3. Obtaining an understanding of the accounting, administrative and internal control systems of PSI using questionnaires, interviews and narrative descriptions.
4. Devising and performing appropriate tests on the transactions and balances recorded in the Fund Accountability Statement.

Our scope of examination also included designing audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct or indirect material effect on the Fund Accountability Statement of PSI.

The scope of examination however only included PSI's operations in Bangladesh and excludes expenditures incurred in USA amounting to US\$ 1,377,197.52.

RESULTS OF THE AUDIT

Fund Accountability Statement

The scope of our work was limited to the examination of the Fund Accountability Statement of PSI as they relate to its operations in Bangladesh, carried out through SMC.

Our examination revealed that :

- (1) The Fund Accountability Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.
- (2) As part of our examination, we identified questioned costs aggregating US\$ 265,803 (See Summary of Questioned Costs enclosed in Annexure A) and US\$ 4,129 (Finding 2) in interest income not refunded to USAID/Bangladesh, which should be resolved between PSI, SMC and USAID/Bangladesh. Attention in this regard is also drawn to Finding 6 in respect of loss of interest arising from USAID/Bangladesh funds not kept in interest bearing accounts extent thereof being not readily ascertainable.

In our opinion, the Fund Accountability Statement, read with the notes attached thereto, fairly presents the receipts and expenditure of funds provided to PSI-Bangladesh operating through the SMC pertaining to its Cooperative Agreement Nos.388-0071-A-00-7081-00 and 388-0050-A-00-5031-00 and funds generated from sale of commodities and interest thereon for the period January 1, 1990 to December 31, 1991 on the basis of accounting described in Note 2c to the Notes on Fund Accountability Statement.

Internal Controls

Our study and evaluation of the system of internal controls of PSI/SMC indicated certain reportable conditions(discussed in Findings 3 and 4).

We believe none of the above reportable conditions to be a material weakness in which the design or the operation of the internal control structure does not reduce to a low level, the risk that errors or irregularities in amounts that could be material in relation to the Fund Accountability Statement may occur and not be detected in a timely manner.

Compliance with Agreement terms

Our testing of transactions and records selected, disclosed certain minor instances of non compliance with certain laid down policies and procedures (discussed in Findings 1 and 2 of the Report on the Fund Accountability Statement and Findings 5 to 8 of the Report on test of compliance with agreement terms, applicable laws and regulations).

Based on the results of our audit for the items tested, except for the minor non compliance issues indicated above PSI and SMC complied in all material respects with the Agreement terms, applicable laws and regulations. With respect to items not tested nothing came to our attention that caused us to believe that PSI and SMC had not complied in all material respects with those provisions.

PSI/BANGLADESH AND SMC MANAGEMENT COMMENTS ON OUR FINDINGS AND RECOMMENDATIONS.

PSI/Bangladesh and SMC officials were generally in agreement with our findings and recommendations except for our findings with regard to certain questioned costs in Findings 1 indicated in Annexures B and C and Finding 5. They have informed us of various measures which are being or have been taken to rectify the deficiencies and the areas of non compliance which were highlighted during our audit.

FOLLOW-UP ON PRIOR REVIEW

Our audit included a review of the status of action taken on the findings reported by M/s. Sadequr Rahim & Co., Chartered Accountants in their "Report on Financial and Voucher Verification Review of Population Services International, Social Marketing Project (PSI/SMC)" as of December 31, 1989. There were no findings reported in the above review where corrective actions have not been taken and the deficiencies resolved.

August 27, 1993

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS.

Price Waterhouse

**POPULATION SERVICES INTERNATIONAL (PSI)-BANGLADESH
OPERATING THROUGH SOCIAL MARKETING COMPANY (SMC)**

**SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND
HEALTH SERVICES**

**COOPERATIVE AGREEMENT NOS.388-0071-A-00-7081-00
AND 388-0050-A-00-5031-00**

**INDEPENDENT AUDITORS' OPINION ON THE FUND
ACCOUNTABILITY STATEMENT**

Mr. Richard C. Thabet,
Regional Inspector General for Audit,
US Agency for International Development,
Singapore.

1. We have audited the Fund Accountability Statement of PSI-Bangladesh operating through SMC for the period January 1, 1990 to December 31, 1991 pertaining to its Cooperative Agreements with USAID/Bangladesh (Nos.388-0071-A-00-7081-00 and 388-0050-A-00-5031-00). The audit only covered costs incurred in Bangladesh and does not include costs amounting to US \$ 1,377,197.52 which were reported to be incurred by PSI's home office in Washington. The Fund Accountability Statement is the responsibility of PSI-Bangladesh and SMC management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.
2. We conducted our audit in accordance with generally accepted US Government Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of Fund Accountability Statement. We believe that our audit provides a reasonable basis for our opinion.
3. As described in Note 2c, the Fund Accountability Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

4. In our opinion, the Fund Accountability Statement, referred to above read with the notes attached thereto is fairly presented with the basis of accounting described in Note 2c to the Notes on Fund Accountability Statement.

5. This report is intended solely for the use of PSI/SMC management and USAID. This restriction is not intended to limit distribution of this report which is a matter of public record.

September 9, 1992

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS.

**POPULATION SERVICES INTERNATIONAL (PSI)-BANGLADESH
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**FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD JANUARY 1, 1990 TO DECEMBER 31, 1991.**

		AMOUNT	
	NOTE	(TK)	(US\$)
FUNDS RECEIVED			
Contributions from USAID	3	248,991,226.44	6,468,985
Revenue from sale of commodities		144,677,386.86	3,758,831
Interest income from deposits out of sales revenue (including interest income - Tk.158,927 / US \$ 4,129 earned on USAID Funds)		12,664,489.58	329,033
TOTAL		<u><u>406,333,102.88</u></u>	<u><u>10,556,849</u></u>
EXPENDITURE AND OTHER DISBURSEMENTS			
Budget category wise expenses for the period January 1, 1990 to December 31, 1991 incurred out of -			
contributions from USAID/B	4	246,839,589.40	6,413,084
sales revenue	4	106,994,956.04	2,779,812
Expenses related to building construction (out of sales revenue)		404,280.00	10,503
		354,238,825.44	9,203,399
Advances, Deposits and Receivables (Net)	5	8,334,606.21	216,540
Excess of funds received over disbursements (placed in Banks and/or held in Cash)	6	43,759,671.23	1,136,910
TOTAL		<u><u>406,333,102.88</u></u>	<u><u>10,556,849</u></u>

Price Waterhouse

PRICE WATERHOUSE
CHARTERED ACCOUNTANTS



ROBERT L. CISZEWSKI
PARTY CHIEF
POPULATION SERVICES
INTERNATIONAL

September 9, 1992.

**POPULATION SERVICES INTERNATIONAL(PSI)-BANGLADESH
OPERATING THROUGH SOCIAL MARKETING COMPANY (SMC).**

**SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND
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**COOPERATIVE AGREEMENT NOS.388-0071-A-00-7081-00
AND 388-0050-A-00-5031-00**

NOTES TO FUND ACCOUNTABILITY STATEMENT

NOTE 1 - IDENTIFICATION AND ACTIVITY

The Family Planning and Health Services Project was instituted through an agreement between the Government of Bangladesh (GOB) and the USAID/Bangladesh signed on August 31, 1987. The purpose of the project was to improve the coverage and quality of family planning and maternal and child health services in Bangladesh. This project has four components, support for the GOB in family planning activities, maternal and child health activities, social marketing and non governmental activities and supply of commodities.

In line with these activities, Population Services International (PSI) was therefore given two grants through Cooperative Agreements (Nos.388-0071-A-00-7081-00 and 388-0050-A-00-5031-00) to fund national personnel costs, transport, equipment supplies and cost of research. In addition, contraceptive commodities are procured by AID/Washington and delivered to PSI and SMC Bangladesh for distribution. Efforts under these Cooperative Agreements are primarily to promote, market and sell various brands of contraceptives and oral rehydration medication throughout the country. The most recent amendments to the above mentioned Cooperative Agreements were made on March 29, 1990 for Agreement No.388-0071-A-00-7081-00 and on March 14, 1991 for Agreement No.388-0050-A-00-5031-00.

During the period 1st January 1990 to 31st December 1991 US\$10,556,849 were received by PSI from USAID. Disbursement made by PSI and SMC during the same period amounted to US\$ 9,419,939.

**POPULATION SERVICES INTERNATIONAL(PSI)-BANGLADESH
OPERATING THROUGH SOCIAL MARKETING COMPANY (SMC).
SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND
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COOPERATIVE AGREEMENT NOS.388-0071-A-00-7081-00
AND 388-0050-A-00-5031-00**

NOTES TO FUND ACCOUNTABILITY STATEMENT (CONTD.)

NOTE 2 - BASIS OF ACCOUNTING/ACCOUNTING POLICIES

- a. The Fund Accountability Statement has been compiled on the basis of available books and records of PSI/Bangladesh and SMC and includes contributions from USAID/B, Project Income received and expenses met therefrom in Bangladesh. The Fund Accountability Statement does not include amount received by PSI- Washington from USAID/B amounting to US\$ 1,377,197.52 and expenses met therefrom.
- b. The books and records are maintained in local currency i.e. Takas. Accordingly the Fund Accountability Statement has been also prepared in Takas. Equivalent US Dollar amounts have been arrived at 1 US\$ = TK. 38.49 being the exchange rate prevailing at the period end i.e. December 31, 1991.
- c. Amounts received from USAID, revenues earned from sale of commodities and bank interest thereon and all expenditures have been accounted for on cash basis.
- d. Expenses incurred by PSI/Bangladesh on behalf of PSI-Washington (e.g. payment of house rent of Mr. R. L. Ciszewski, Country Representative of PSI etc.) are transferred to their current account and are reimbursed by them from time to time.

NOTE 3 - AMOUNT RECEIVED FROM USAID DURING THE PERIOD JANUARY 1, 1990 TO DECEMBER 31, 1991

	AMOUNT	
	(TK)	(US\$)
Under Family Planning Project (Cooperative Agreement No.388-0071-A-00-7081)	151,798,702.32	3,943,848
Under Oral Rehydration Therapy Project (Cooperative Agreement No.388-0050-A-00-5031-00)	97,192,524.12	2,525,137
	248,991,226.44	6,468,985

**POPULATION SERVICES INTERNATIONAL (PSI)-BANGLADESH
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AND 388-0050-A-00-5031-00**

NOTES TO FUND ACCOUNTABILITY STATEMENT (CONTD.)

**NOTE 4 - BREAK UP OF BUDGET CATEGORY WISE EXPENSES DURING THE PERIOD
JANUARY 1, 1990 TO DECEMBER 31, 1991.**

Budget category wise Expenses	Family Planning Project (under Cooperative Agree- ment No.388-0071-A-00 -7081-00)		Oral Rehydration Therapy Project (under Cooperative Agreement No. 388-0050-A-00- 5031-00)		Total	
	(A)		(B)		(A + B)	
	(TK)	(US\$)	(TK)	(US\$)	(TK)	(US\$)
Salaries, Consultants and Fringe Benefits	80,057,776.25	2,079,964	17,537,120.00	455,628	97,594,896.25	2,535,592
Travel and Transportation	24,944,718.23	648,083	5,973,466.78	155,195	30,918,185.01	803,278
Equipment, Vehicles, Materials and Supplies	27,470,378.21	713,702	17,387,817.82	451,748	44,858,196.03	1,165,450
Training	120,650.00	3,134	303,305.54	7,880	423,955.54	11,014
Advertisement, Promotion, Research, Product Development and Packaging	54,504,346.47	1,416,065	34,205,893.06	888,696	89,710,239.53	2,304,761
Other Direct Cost	37,067,407.02	963,040	6,830,773.08	177,469	43,898,180.10	1,140,509
Community Based Sales	-	-	8,575,288.18	222,793	8,575,288.18	222,793
ORS Production, Raw Materials and Distribution	-	-	38,855,604.80	1,009,499	38,855,604.80	1,009,499
	<u>224,165,276.18</u>	<u>5,823,988</u>	<u>129,669,269.26</u>	<u>3,368,908</u>	<u>353,834,545.44</u>	<u>9,192,896</u>
Less: Disbursement from Revenue	<u>67,588,022.01</u>	<u>1,755,989</u>	<u>39,406,934.03</u>	<u>1,023,823</u>	<u>106,994,956.04</u>	<u>2,779,812</u>
	<u>156,577,254.17</u>	<u>4,067,999</u>	<u>90,262,335.23</u>	<u>2,345,085</u>	<u>246,839,589.40</u>	<u>6,413,084</u>

**POPULATION SERVICES INTERNATIONAL(PSI)-BANGLADESH
OPERATING THROUGH SOCIAL MARKETING COMPANY (SMC).
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NOTES TO FUND ACCOUNTABILITY STATEMENT (CONTD.)

NOTE 5 - ADVANCES, DEPOSITS ETC. AS AT DECEMBER 31, 1991.

	AMOUNT	
	(TK)	(US\$)
Advance, Deposits etc.	9,453,909.83	245,620
Receivable from Washington (Washington Current Account)	277,492.82	7,209
Other Receivables	1,611.00	42
	9,733,013.65	252,871
Less : Sale Proceeds of commodities pertaining to other projects - Refundable	196,588.00	5,107
Payroll tax and Provident Fund (employees' contribution)deducted at source yet to be deposited and security deposits	1,201,819.44	31,224
	1,398,407.44	36,331
	8,334,606.21	216,540

NOTE 6 - EXCESS OF FUNDS RECEIVED OVER DISBURSEMENTS

Excess of funds received over disbursements shown in the Statement Tk.43,759,671.23 (US\$ 1,136,910) has been arrived at after deducting opening balances as on January 1, 1990 Tk.56,822,407.23 (US\$ 1,476,290) consisting of Cash and Bank balances, Advances etc. which was outside the scope of this audit.

**POPULATION SERVICES INTERNATIONAL(PSI)-BANGLADESH
OPERATING THROUGH SOCIAL MARKETING COMPANY (SMC).**

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FINDING - 1

QUESTIONABLE: PSI-BANGLADESH/SMC EXPENDITURE

CONDITION

Budget Category wise Expenses include questioned costs amounting to TK.10,230,824 (US\$ 265,803) as summarised in Annexure - A (page 30).

CRITERIA

All expenses should be incurred in accordance with the terms of the Cooperative Agreement, Office of Management and Budget (OMB) circulars A-110 and A-122. The basis of questioning these costs are also set out in Annexure A on page 30.

CAUSE

Absence of clarity among officials of PSI-Bangladesh/SMC responsible for USAID granted funds and internally generated revenue from sale of commodities and interests thereon, regarding the allowability of certain expenses has resulted in the above mentioned questioned costs being incurred.

EFFECT

The above resulted in questioned costs amounting to Tk.10,230,824 (US\$ 265,803).

RECOMMENDATION NO 1

We recommend that PSI/SMC resolve the above US\$ 265,803 in questioned costs with USAID/B, and repay the amount determined to be unallowable.

PSI Management Comments

- a. Annexure B Per diem and transport cost (Tk 10,924). SMC has a regular 3-day annual conference for all employees. One day of this includes an informal get-together which is often referred to by the staff as a "picnic". Reimbursement vouchers for some employees

mistakenly identified the per diems and transportation costs associated with this conference as "picnic" expenses. They were, properly, annual conference expenses.

SMC will take care not to mis-identify such expenses in future.

Auditors' Comments

No documented evidence to support management's assertion that these reimbursements were for annual conference were available for audit purposes.

- b. Annexure C.(A) USAID approval not obtained for general purpose items. (Tk.206,800). USAID did not at the time require lists of projected purchases to be submitted separately or to be included in the Cooperative Agreement. However, PSI negotiated the detailed budget by estimating costs for these and other such items. We did not and do not believe that there was any necessity to seek further approval for these low levels of expenditure as long as funds were available in the approved budget under the appropriate line item.

As this component has been greatly clarified in our new Cooperative Agreement, we trust it will not arise again.

Auditors' Comments

Finding vis-a-vis the cited criteria therein is reiterated

- c. Annexure C (B) USAID approval not obtained for general purpose items purchased with revenue funds (Tk 4,529,650). These purchases were made with SMC-owned revenue funds and were for regular project activities. They are exempted from further USAID approval by the terms of Attachment 1, Paragraph E (1-4) of the CSM Cooperative Agreement # 7081 (q.v.).

Auditors' Comments

Finding vis-a-vis the cited criteria therein in reiterated

- d. Annexure D Other questioned costs. (Tk 23,450)

Item 1, 2, and 3 (Tk 23,450) will be refunded to USAID.

- e. Annexure A (Item 4) Lease agreement made without USAID approval, resulting in blockage of funds and loss of interest (Tk.5,460,000).

Refer Finding 5 (Page 25).

FINDING - 2

INTEREST EARNED ON ADVANCES OF FEDERAL FUNDS NOT REFUNDED TO USAID

CONDITION

Interest of TK.158,927 (US\$ 4,129) earned on USAID/B funds received during the year and banked in Account No. STD 19 of Rupali Bank Ltd. has been retained by PSI/SMC instead of refunding the same to USAID/B although related Cooperative Agreements (388-0071-A-00-7081-00 and 388-0050-A-00-5031-00) provides for refund of such interest to USAID/B.

CRITERIA

Attachment 1 of 6th Amendment to Cooperative Agreement No.388-0071-A-00-7081-00 and 3rd Amendment to Cooperative Agreement No.388-0050-A-00-5031-00 respectively provides that 'The recipient and sub-recipient shall remit to AID, at least quarterly, the interest earned on advances of funds from AID'.

CAUSE

The above mentioned non compliance resulted from an impression amongst PSI/SMC management that such interest was adjustable against loss of interest arising from use of funds in earlier years from sale of commodities pending its reimbursements by USAID/B.

EFFECT

The above resulted in interest income amounting to Tk.158,927 (US\$ 4,129) which is refundable to USAID/B.

RECOMMENDATION NO. 2

We recommend that PSI/SMC resolve the above US\$ 4,129 interest refundable to USAID/B with the USAID/B and repay the appropriate amount to USAID/B.

PSI Management Comments

We agree with this finding. The amount questioned has been remitted to USAID via check No.523533 dated July 7, 1993.

Price Waterhouse

**POPULATION SERVICES INTERNATIONAL (PSI)-BANGLADESH
OPERATING THROUGH SOCIAL MARKETING COMPANY (SMC)**

**SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND
HEALTH SERVICES**

**COOPERATIVE AGREEMENT NOS.388-0071-A-00-7081-00
AND 388-0050-A-00-5031-00**

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROLS

Mr. Richard C. Thabet,
Regional Inspector General for Audit,
US Agency for International Development,
Singapore.

We have audited the Fund Accountability Statement of PSI/Bangladesh operating through SMC for the period January 1, 1990 to December 31, 1991 pertaining to its Cooperative Agreements with USAID/Bangladesh (Nos.388-0071-A-00-7081-00 and 388-0050-A-00-5031-00) and have issued our report thereon dated September 9, 1992. The audit only covers PSI's operations in Bangladesh.

We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. Those standards require that we plan and perform the audit so as to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of PSI/Bangladesh operating through SMC we considered the internal control structure of PSI/SMC in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of PSI/SMC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with

management's authorization and recorded properly to permit the preparation of Fund Accountability Statement in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures of PSI/Bangladesh operating through SMC in the following categories :

1. General Control
2. Bank and Cash (receipts and disbursements)
3. Sale of Commodities
4. Payroll
5. Procurement

For all the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Fund Accountability Statement.

The reportable conditions which include internal control weaknesses are described in Findings 3 and 4 viz. the system of cash collection against sale of commodities and absence of cross referencing between non expendable property records and financial records in some cases.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the Fund Accountability Statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our examination of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above and in Findings 3 and 4 is a material weakness.

This report is intended for the information of PSI/SMC management and USAID. The restriction is not intended to limit the distribution of this report which is a matter of public record.

September 9, 1992

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS.

**POPULATION SERVICES INTERNATIONAL(PSI)-BANGLADESH
OPERATING THROUGH SOCIAL MARKETING COMPANY (SMC).
SUPPORT OF USAID/BANGLADESH'S FAMILY PLANNING AND
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COOPERATIVE AGREEMENT NOS.388-0071-A-00-7081-00
AND 388-0050-A-00-5031-00**

FINDING - 3

DEFICIENCIES IN SYSTEM OF CASH COLLECTION AGAINST SALE OF COMMODITIES.

CONDITION

Following deficiencies in the system of cash collection against sale of commodities were noticed by us -

- a. Cash collected by sales officers are not deposited intact by them to bank accounts immediately, although all cash was eventually deposited. (Refer Annexure - E).
- b. Although large amounts of cash are collected and handled by the sales officers neither any cash in transit insurance nor any fidelity insurance has been taken by PSI/SMC.
- c. Presently the "Sales Proceeds and Collection Reports", which contain details of credit sales made, cash collected from customers etc., submitted by the sales officers are checked in a few cases by the Zone Executives (who are not independent of the sales function). However, no confirmation of the balance outstanding is obtained from the customers to check their authenticity.
- d. Adequate monitoring of credit sales collections made by sales officers e.g., through establishment of a predetermined credit collection period, and comparison of actual collection of individual sales officers against such pre-determined period, is not carried out.

CRITERIA

As per the mandatory standard provisions, para 2(a)(3) relating to 'Accounting Audit and Records', 'the grantee's financial management system should provide for effective control over and accountability for all funds, property and other assets' and the grantee shall adequately safeguard all such assets.

CAUSE

The reason for the above referred deficiencies is lack of appreciation amongst PSI and SMC officials of the need for exercising greater control over the system of cash collection against sale of commodities.

EFFECT

- a. Loss of interest to PSI/SMC and risk of misappropriation of cash.
- b&c. Risk of loss arising to PSI/SMC through theft/misappropriation of cash increase.
- d. Risk of loss of revenue through bad debts.

RECOMMENDATION - NO. 3

It is recommended that -

- a. Sales officers be instructed to deposit cash collections intact into the bank accounts without any delay.
- b. Steps be taken to obtain Fidelity Insurance and Cash-in-Transit Insurance in respect of cash collections made by sales officers.
- c. Confirmations of balances outstanding be obtained from the customers and in addition to the check carried out by zone executives, surprise checking of some of the customers' accounts should be carried out by responsible officials of the head office who are independent of the sales function.
- d. Actual debt collection period in relation to credit sales made by individual sales officers be compared with a predetermined debt collection period set by PSI/SMC and in case of abnormal variation suitable follow up action should be initiated.

PSI Management Comments

SMC sells to more than 100,000 small retailers, many of whom do not even have an official address, and to scores of medium to small wholesalers scattered throughout the country. It is not possible to check credit or, in many cases, to make surprise visits, as only our salesmen know the location of these clients. We do not believe it is practical to impose any more complicated control mechanisms than we already have, but we are implementing recommendations a-c.

It should be noted that in 17 years of sales, collecting many millions of dollars, we have had virtually no bad debt or defalcation by salesmen. In any event, SMC no longer allows credit sales.

FINDING 4

NON-EXPENDABLE PROPERTY RECORDS NOT CROSS REFERENCED WITH FINANCIAL RECORDS IN ALL CASES.

CONDITION

Voucher reference of non-expendable property acquired during the period (which would be helpful in cross referencing asset values to financial records i.e. General Ledger) is not indicated in the non-expendable property records in all cases.

CRITERIA

Provisions of paragraph II - Property Management Standards in AID Handbook 13 require the recipient to maintain property records accurately.

CAUSE

The instances where cross referencing were missing occurred on account of oversight on part of concerned PSI/SMC officials.

EFFECT

The deficiency mentioned above results in weaker control over non-expendable property e.g. in absence of cross referencing of entries for non-expendable property acquired during the period between non-expendable property records and financial records there is a possibility that misposting of asset value in the non-expendable property records, if any, may remain undetected.

RECOMMENDATION NO.4

It is recommended that PSI/SMC officials ensure that voucher reference is given in all cases of additions/deletions of non expendable property in the above mentioned records.

PSI Management Comments

Noted. SMC is implementing this recommendation.

Price Waterhouse



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AND 388-0050-A-00-5031-00**

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS.**

Mr. Richard C. Thabet,
Regional Inspector General for Audit,
US Agency for International Development,
Singapore.

We have audited the Fund Accountability Statement of PSI-Bangladesh operating through SMC for the period January 1, 1990 to December 31, 1991 pertaining to its Cooperative Agreement with USAID/Bangladesh (Nos.388-0071-A-00-7081-00 and 388-0050-A-00-5031-00) and have issued our report thereon dated September 9, 1992. The audit only covers PSI's operations in Bangladesh.

We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to PSI-Bangladesh is the responsibility of PSI-Bangladesh management. As part of our audit, we performed tests of PSI-Bangladesh's compliance with certain provisions of laws, regulations, contracts, grants and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions and records selected, disclosed certain instances of non compliance with certain provisions of the Cooperative Agreements and regulations applicable to PSI. All such instances which are considered minor are identified in Findings 1, 2 and 5 to 8 (pages 13 to 15 and 24 to 28 respectively).

The result of our tests indicate that with respect to the items tested, PSI complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that PSI had not complied, in all material respects, with those provisions. The overall results of the non compliance issues, however do not have a material effect on the Fund Accountability Statement of PSI for the period under review.

This report is intended for the information of PSI/SMC management and USAID. This restriction is not intended to limit the distribution of this report which is a matter of public record.

September 9, 1992

Price Waterhouse
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS.

**POPULATION SERVICES INTERNATIONAL (PSI)-BANGLADESH
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FINDING 5

LEASE AGREEMENT, WITHOUT PRIOR USAID APPROVAL, RESULTING IN BLOCKAGE OF FUNDS AND LOSS OF INTEREST.

CONDITION

Although Cooperative Agreements no.388-0071-A-00-7081-00 and 388-0050-A-00-5031-00 requires prior approval from USAID/B Director for entering into sub agreements over US\$ 100,000, no such approval was taken by PSI/SMC prior to entering into a lease agreement with Bangladesh Scouts for taking on lease a premise which was proposed to be constructed by them. Accordingly an advance payment of TK.5,460,000 (US\$ 141,855) was made to them. Subsequently PSI/SMC decided not to take possession of the building as construction of lift facilities (provided for in the lease agreement) was not completed and accordingly claimed refund of the above mentioned advance together with the accrued interest thereon. In reply Bangladesh Scouts agreed to refund the advance (without interest) in instalments over five years, with effect from July 1, 1992. Subsequently they have extended payment of first instalment till December 1992.

CRITERIA

Attachment 1 of amendment No. 3 to Cooperative Agreement No.388-0071-A-00-7081-00 and attachment 1 of amendment No. 1 to Cooperative Agreement no.388-0050-A-00-5031-00 provides that 'USAID/B Director will approve sub agreements over US\$ 100,000 in value'.

CAUSE

The reason for entering into the above contract without USAID/B concurrence was based on auditee's assumption that funds involved being revenue funds, USAID/B approval was not necessary.

EFFECT

Interest loss to the tune of TK.1,092,000 (US\$ 28,371) has already been incurred by PSI/SMC upto August 31, 1992 on the above advance (Note original agreement provided for payment of interest @ 1% per month by Lessor in case of default in handing over possession). The interest loss is likely to go up further in proportion to the delay in recovering the advance.

RECOMMENDATION NO 5

We recommend that PSI and SMC resolve the above US\$ 141,855 in questioned costs with USAID/B and repay the amount determined to be unallowable.

PSI Management Comments

This was an unremarkable expenditure of SMC revenue funds, with pre-approval built into the Cooperative Agreement. The amount was a rent advance, common in Bangladesh, conditional on the Scouts having the premises ready by a certain date. When the Scouts had not fulfilled their contractual obligation within the specified time, the SMC board invoked the cancellation clause and demanded return of the deposit. Because the Bangladesh Scouts, a non-profit organization, could not immediately return the money, a provision was made that they would pay in installments, with interest.

Payments are being received, and SMC believes that all the funds will be returned. We see no reason for any amount to be declared unallowable in this normal transactions.

Auditors' Comments

Finding vis-a-vis the cited criteria therein is reiterated.

FINDING 6

FUNDS RECEIVED FROM USAID/B NOT KEPT IN INTEREST BEARING ACCOUNT

CONDITION

A part of the funds received from USAID during the period under audit (upto April 1, 1990) amounting to TK.39,858,924.93 (US\$ 1,035,565.73) were kept in non-interest bearing current accounts from January to April 1990. Funds received subsequent to April 1990 have however been kept in interest bearing accounts.

CRITERIA

According to Attachment 1 of 6th Amendment to Cooperative Agreement No.388-0071-A-00-7081-00 and 3rd Amendment to Cooperative Agreement No.388-0050-A-00-5031-00 dated August 23, 1989 and September 28, 1989 respectively and OMB circular A-110 (revised with effect from February 10, 1987) recipient is required to maintain advances of Federal Funds in interest bearing accounts.

CAUSE

The above mentioned non compliance is on account of lack of awareness of the requirements of OMB circular A-110 on part of the PSI/SMC officials and delayed response by them to the amendments in the related Cooperative Agreements.

EFFECT

There has been a non compliance of the provisions of the Cooperative Agreements 388-0071-A-00-7081-00 and 388-0050-A-00-5031-00 and OMB circular A-110 with the resultant loss of interest to PSI/SMC (extent not readily ascertainable).

RECOMMENDATION NO 6

We recommend that PSI and SMC officials determine the amount of interest lost and repay the sum to USAID/Bangladesh.

PSI Management Comments

PSI/SMC was not aware of the requirement to keep these funds in interest-bearing accounts, as during the previous many years of this project we were required to hold such funds in non-interest-bearing accounts. When we learned of the requirements of OMB Circular A-110, SMC immediately complied.

PSI/SMC, if required, will work with USAID to determine how much interest, if any, was lost, for the few days during which varying amounts of these funds rested in this operating account.

FINDING 7

POSITION OF EXECUTIVE DIRECTOR REMAINED VACANT FOR SUBSTANTIAL PERIOD.

CONDITION

The position of Executive Director remained vacant for 489 days (the previous Executive Director left on May 30, 1989 and the present Executive Director was appointed in October, 1990) which is in excess of the prescribed ninety days laid down by the Cooperative Agreement nos.388-00-7081 and 388-00-5031.

CRITERIA

Attachment 1 of Amendment No. 1 to Cooperative Agreement No.388-0050-A-00-5031-00 and Amendment No. 3 to Agreement No.388-0071-A-00-7081-00 provides that "should the position of Executive Director of SMP/SMC fall vacant, PSI will nominate a successor to the position within 90 days".

CAUSE

The above referred non compliance has resulted from lack of consensus amongst officials of PSI and SMC and other parties involved in the choice of a candidate to fill the vacancy.

EFFECT

There has been a non compliance with the aforesaid provision of the Cooperative Agreement with a consequential impact on the project performance (not quantifiable) in view of a 'key position of the project' remaining vacant for an unduly long period.

RECOMMENDATION NO. 7

It is recommended that PSI and SMC management ensure timely filling up of key project positions (which have fallen vacant) in accordance with the requirements of the related Cooperative Agreements, for effective monitoring of project performance.

PSI Management Comments

This was due to circumstances well beyond anyone's control. We shall certainly continue to try to comply, as recommended.

FINDING 8

EXECUTIVE DIRECTOR'S TIME NOT ALLOCATED ACCORDING TO COOPERATIVE AGREEMENT GUIDELINES.

CONDITION

Salary of Executive Director is divided between Family Planning Project (388-00-7081) and Oral Rehydration Therapy project (388-00-5031) in the ratio of 9:1 (without intimation to USAID) which is not in accordance with the prescribed ratio of 8:2 laid down by the Cooperative Agreement Nos.388-0071-A-00-7081-00 and 388-0050-A-00-5031-00.

CRITERIA

Attachment 1 of amendment No.3 to Cooperative Agreement No.388-0071-A-00-7081-00 and Amendment No.1 to Cooperative Agreement No.388-0050-A-00-5031-00 provide that the Executive Director's time shall be divided between the two projects respectively in the ratio 8:2. In case of any change in the ratio of allocation of the time spent the agreements provide that PSI will notify USAID reasonably in advance and will submit justification (including - as applicable - proposed substitution) in sufficient details to permit evaluation of the impact on the programme.

CAUSE

The above mentioned non compliance is on account of lack of awareness of the related requirements of the agreements on the part of PSI/SMC officials.

EFFECT

In view of the above mentioned non compliance USAID/B cannot be assured about accuracy of costs allocated between the two projects under the relevant budget head.

RECOMMENDATION NO. 8

We recommend that PSI resolve with USAID/B the appropriate ratio to be used to allocate the Executive Director's Salary.

PSI Management Comments

Noted. SMC has implemented this recommendation.

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FOLLOW-UP ON FINANCIAL AND VOUCHER VERIFICATION REVIEW

We have reviewed the status of action taken on findings reported in the Financial and Voucher Verification Review of Population Services International (PSI)/Social Marketing Project (SMP) as of December 31, 1989 by M/s. Sadequr Rahim & Co., Chartered Accountants.

There were no findings reported in the above review, where corrective action have not been taken and the deficiencies resolved.

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SUMMARY OF QUESTIONED COSTS

(Finding 1 on page 13)

	Annexure	(TK)	AMOUNT (US\$)
1. Per diem and transportation charges paid to employees of PSI/SMC for attending picnic :	B	10,924	284
2. USAID approval not obtained for purchase of certain general purpose items :	C	4,736,450	123,055
3. Other questioned costs :	D	23,450	609
		<u>4,770,824</u>	<u>123,948</u>
4. Advance payment under lease agreement without prior USAID approval - Finding 5		<u>5,460,000</u>	<u>141,855</u>
Grand Total :		<u>10,230,824</u>	<u>265,803</u>
5. Loss of interest from USAID/Bangladesh Funds not kept in interest bearing account - Finding 6			[Amount not readily ascertainable]

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PER DIEM AND TRANSPORTATION CHARGES PAID TO EMPLOYEES OF PSI/SMC (OUT OF COLLECTION FROM SALE OF COMMODITIES) FOR ATTENDING PICNIC, NOT RELATED TO REGULAR PROJECT ACTIVITY.

Payment Reference	Name of Employee	Station	Amount	
			TK.	US\$.
1. B-3/153 March 20, 1990	Md. Shahadat Hossain	Khulna	380	10
2. B-3/151 March 20, 1990	Md. Khairul Alam	- do -	205	5
3. B-3/152 March 20, 1990	Md. Abdul Rahim Khan	- do -	455	12
4. B-3/155 March 20, 1990	Md. Lutfar Rahman	- do -	900	23
5. B-3/156 March 20, 1990	Md. Alauddin	- do -	445	12
6. B-3/157 March 20, 1990	Md. Shahjahan	- do -	490	13
7. B-3/158 March 20, 1990	Nikhil Baroi	- do -	350	9
8. B-3/159 March 20, 1990	Md. Harun Rashid	- do -	1,760	46
9. B-3/160 March 20, 1990	Md. Rafiqul Islam	- do -	350	9
10. B-3/161 March 20, 1990	Md. Moklesur Rahman	- do -	350	9
11. CBI/108 May 21, 1990	Md. Tarique Islam	Rajshahi	1,640	43
12. - do -	Md. Zahedur Rahman	- do -	625	16
13. - do -	Md. Abdul Halim	- do -	653	17
14. - do -	A.K.M. Nurul Alam	- do -	738	19
15. - do -	Golam Mohiuddin	- do -	1,583	41
			<u>10,924</u>	<u>284</u>

**POPULATION SERVICES INTERNATIONAL(PSI)-BANGLADESH
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CAPITAL ASSETS PURCHASED WITHOUT USAID APPROVAL

**(A) APPROVAL REQUIRED AS PER OMB CIRCULAR A-122, ATTACHMENT B, PARAGRAPH
13 - FOR PURCHASES OUT OF USAID FUNDS**

Particulars	Voucher No.	Voucher Date	Amount (TK)	Amount (US\$)
Electronic Typewriter	CB1/2	July 1'90	45,000	1,169
Rank Plain Paper Copier	CB1/14	Aug.13'90	139,000	3,611
Bookshelf	CB1/85	May 19'91	22,800	592
			<u>206,800</u>	<u>5,372</u>

**(B) APPROVAL REQUIRED UNDER "ATTACHMENT 1 PARAGRAPH E(3) OF AMENDMENT
3 TO COOPERATIVE AGREEMENT NUMBER 388-0071-A-00-7081-00 AND AMENDMENT
NUMBER 2 TO COOPERATIVE AGREEMENT NUMBER 388-0050- A-00-5031-00 - FOR
PURCHASES OUT OF REVENUE FUNDS.**

Particulars	Voucher No.	Voucher Date	Amount (TK)	Amount (US\$)
Printer and UPS (PSI)	CB2/214	Nov.18'90	155,000	4,027
National Top Cool A/c 18000 BTU	CB2/32	Oct. 8'90	44,850	1,165
Three Wheeler API-175 (4 nos.@ Tk.119,000 each)	CB2/34	Nov. 8'90	476,000	12,366
Three Wheeler API-175 (4 nos.@ Tk.119,000 each)	CB2/228	Nov.21'90	476,000	12,366
Dinner Wagon with fittings	CB2/77	Jan.20'91	10,500	273
ACCR Laptop Computer	CB2/16	Feb. 5'91	125,000	3,248
NCR Hard Disk Tower 32/600	CB2/35	July 24'91	606,300	15,752

ANNEXURE - C (CONTD.)

Particulars	Voucher No.	Voucher Date	Amount	
			(TK)	(US\$)
SX ACCR Micro Computer	CB2/28	Sept.30'91	117,000	3,040
Cannon Deshbangla Electronic Typewriter	CB2/18	Oct.16'91	45,000	1,169
Sanyo Multisplit Type Air Cooler (2 nos. @ Tk.34,800 each)	CB2/10	Apr. 24'91	696,000	18,083
National Air Cooler Window Type 24000 BTU (8 nos. @ Tk.62,500 each)	CB2/28	June 20'91	500,000	12,990
Power Tronix UPS 1000 VA (3 nos.@ Tk.35,000 each)	CB2/17	May 13'91	105,000	2,728
Mitel Digital PABX	JV/45	Dec.31'91	625,000	16,238
Fax Machine Toshiba Model TF 381	CB2/8	Sept.8'91	130,000	3,378
API Three Wheeler (2 nos. @ Tk.119,000)	CB2/50	Jan.15'91	238,000	6,183
Car Air Conditioners (6 nos.@ Tk.30,000 each)	CB2/21	Mar. 7'91	180,000	4,677
			<u>4,529,650</u>	<u>117,683</u>
GRAND TOTAL (A+B)			<u>4,736,450</u>	<u>123,055</u>

**POPULATION SERVICES INTERNATIONAL(PSI)-BANGLADESH
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OTHER QUESTIONED COSTS

	Payment/Other Reference	Amount		Remarks
		(TK)	(US\$)	
1.	CB5/2 dt. 5.3.90	600	16	Money paid to office guards for not being able to attend office picnic (unallowable per attachment 1 para 3 of 1st Amendment to Co-operative Agreement No. 388-0050-A-5031-00 and attachment 1 para E of 3rd Amendment to Cooperative Agreement No.388-0071-A-00-7081-00 as it does not relate to a regular project activity).
2.	B4/37 dt. 5.3.90	50	1	Donation to club (unallowable per OMB circular A-122, Attachment B, Paragraph 10).
3.	CB1/39 dt. 8.9.91	22,800	592	Expenditure on installation of car stereo [unallowable per AID Hand Book 13 (AID eligibility rules for goods and services)].
		<u>23,450</u>	<u>609</u>	

**POPULATION SERVICES INTERNATIONAL(PSI) - BANGLADESH
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**COOPERATIVE AGREEMENT NOS.388-0071-A-00-7081-00
AND 388-0050-A-00-5031-00**

**SHORT DEPOSIT OF CASH COLLECTED AGAINST SALE OF COMMODITIES
(SUBSEQUENTLY DEPOSITED)**

(Finding 3 on page 19)

Name of Sales Officer	Cash Sales made	Cash collection from Debtors	Total Cash collection	Cash deposited Into Bank.	(Short) excess deposited
	(A)	(B)	(C) = (A+B)	(D)	(E) = (D-C)
	(TK)	(TK)	(TK)	(TK)	(TK)
<u>Period - 28.12.91 to 30.12.91 (Dhaka Area Sales Office)</u>					
Zamman	17,787.50	8,939.00	26,726.50	25,960.00	(766.50)
Jahangir	1,738.50	2,394.00	4,132.50	56,239.00	52,106.50
A.A. Masud	55,360.00	-	55,360.00	42,200.00	(13,160.00)
Golam Murshed	90,565.00	7,076.00	97,641.00	6,038.00	(91,603.00)
adjusted towards earlier short deposits.					
<u>Period - 2.12.91 to 5.12.91 (Dhaka Area Sales Office)</u>					
Jahangir	9,480.00	20,000.00	29,480.00	27,636.00	(1,844.00)
<u>Period - 17.12.91 to 23.12.91 (Raishahi Area Sales Office)</u>					
M.A. Fayez	1,961.00	20,930.00	22,891.00	22,850.00	(41.00)
<u>Period - 23.12.91 to 31.12.91 (Rangpur Area Sales Office)</u>					
Tipu Sultan	37,014.00	80,440.00	117,454.00	55,500.00	(61,954.00)
Mostafa Kamal	5,925.00	54,846.00	60,771.00	56,771.00	(4,000.00)
Zaherul Islam Khan	62,574.00	99,410.00	161,984.00	76,974.00	(85,010.00)
Fazlur Rahman	34,483.00	39,299.00	73,782.00	61,042.00	(12,740.00)
Rezaur Rahman	61,122.00	38,316.00	99,438.00	39,000.00	(60,438.00)

PSI MANAGEMENT'S COMMENTS

Finding - 1

Annexure B Per diem and transport cost (Tk 10,924). SMC has a regular 3-day annual conference for all employees. One day of this includes an informal get-together which is often referred to by the staff as a "picnic". Reimbursement vouchers for some employees mistakenly identified the per diems and transportation costs associated with this conference as "picnic" expenses. They were, properly, annual conference expenses.

SMC will take care not to mis-identify such expenses in future.

Annexure C.(A) USAID approval not obtained for general purpose items. (Tk.206,800). USAID did not at the time require lists of projected purchases to be submitted separately or to be included in the Cooperative Agreement. However, PSI negotiated the detailed budget by estimating costs for these and other such items. We did not and do not believe that there was any necessity to seek further approval for these low levels of expenditure as long as funds were available in the approved budget under the appropriate line item.

As this component has been greatly clarified in our new Cooperative Agreement, we trust it will not arise again.

Annexure C (B) USAID approval not obtained for general purpose items purchased with revenue funds (Tk 4,529,650). These purchases were made with SMC-owned revenue funds and were for regular project activities. They are exempted from further USAID approval by the terms of Attachment 1, Paragraph E (1-4) of the CSM Cooperative Agreement # 7081 (q.v.).

Annexure D Other questioned costs. (Tk 23,450)

Item 1, 2, and 3 (Tk 23,450) will be refunded to USAID.

Finding 5 Lease agreement made without USAID approval, resulting in blockage of funds and loss of interest (Tk.5,460,000).

Refer PSI Management Comments under Finding 5.

Finding - 2

We agree with this finding. The amount questioned has been remitted to USAID via check No.523533 dated July 7, 1993.

Finding - 3

SMC sells to more than 100,000 small retailers, many of whom do not even have an official address, and to scores of medium to small wholesalers scattered throughout the country. It is not possible to check credit or, in many cases, to make surprise visits, as only our salesmen know the location of these clients. We do not believe it is practical to impose any more complicated control mechanisms than we already have, but we are implementing recommendations a-c.

It should be noted that in 17 years of sales, collecting many millions of dollars, we have had virtually no bad debt or defalcation by salesmen. In any event, SMC no longer allows credit sales.

Finding - 4

Noted. SMC is implementing this recommendation.

Finding - 5

This was an unremarkable expenditure of SMC revenue funds, with pre-approval built into the Cooperative Agreement. The amount was a rent advance, common in Bangladesh, conditional on the Scouts having the premises ready by a certain date. When the Scouts had not fulfilled their contractual obligation within the specified time, the SMC board invoked the cancellation clause and demanded return of the deposit. Because the Bangladesh Scouts, a non-profit organization, could not immediately return the money, a provision was made that they would pay in installments, with interest.

Payments are being received, and SMC believes that all the funds will be returned. We see no reason for any amount to be declared unallowable in this normal transactions.

Finding - 6

PSI/SMC was not aware of the requirement to keep these funds in interest-bearing accounts, as during the previous many years of this project we were required to hold such funds in non-interest-bearing accounts. When we learned of the requirements of OMB Circular A-110, SMC immediately complied.

PSI/SMC, if required, will work with USAID to determine how much interest, if any, was lost, for the few days during which varying amounts of these funds rested in this operating account.

Finding - 7

This was due to circumstances well beyond anyone's control. We shall certainly continue to try to comply, as recommended.

Finding - 8

Noted. SMC has implemented this recommendation.

APPENDIX II

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