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Regional Inspector General for Audit
Singapore

AUDIT OF USAID/BANGLADESH'S MANAGEMENT OF PROJECT-FUNDED COMMODITIES

Audit Report No. 5-388-95-005
March 15, 1995

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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INTERNATIONAL
DEVELOPMENT

March 15, 1995

MEMORANDUM

TO: Richard M. Brown, Mission Director, USAID/Bangladesh

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

SUBJECT: Audit Report on USAID/Bangladesh's Management of Project-Funded Commodities (Audit Report No. 5-388-95-005)

Enclosed are three copies of the subject audit report. In summary, our audit work on the three audit objectives showed that:

- USAID-financed commodities generally arrived on time to meet project implementation plans.
- project commodity procurement generally complied with U.S. Government and USAID source, origin and eligibility requirements.
- the Mission needs to better monitor commodities and non-expendable property; and end-use checks need to be performed to ensure that USAID-funded commodities are substantially used for the intended purposes.

Your comments to the draft report were very responsive and have been carefully considered in completing the report. The comments have been incorporated in the body of the report, are summarized after each finding and included in their entirety as Appendix II. Based on your comments, Recommendations 2 and 4 are considered resolved and Recommendations 1 and 3 remain unresolved.

Please provide us information within 30 days indicating any actions planned or taken to implement the open recommendations. For any action already taken, please include any supporting documentation of the action with your response. I very much appreciate the collaborative and supporting working relationships that you and your staff maintained with this office during the audit.

Attachment: a/s

EXECUTIVE SUMMARY

Introduction

USAID Handbook 1, Supplement B defines commodities "as any material, article, supply, goods or equipment." As of March 31, 1994, USAID/Bangladesh obligated $128 million and expended about $113 million towards the purchase of commodities and equipment under 17 active projects.

The Office of the Regional Inspector General for Audit, Singapore (RIG/A/Singapore), audited USAID/Bangladesh's management of project-funded commodities to determine whether:

(i) the commodities arrived on time to meet project procurement plans and implementation schedules;

(ii) commodity procurement was made in accordance with U.S. source, origin and eligibility requirements; and

(iii) USAID policies and procedures were followed in ensuring that commodities were being used as intended.

This audit covered four projects representing about 99 percent of USAID/Bangladesh's total commodity obligations under 17 projects. These four projects have life of project funding amounting to $456 million of which $210 million was disbursed as of March 31, 1994, including the $113 million expended on commodities.

The audit focused on bulk commodities, such as contraceptives, fertilizer, and electrification components, as well as non-expendable property, such as vehicles, computers, and equipment.

Results of Audit

USAID-financed commodities generally arrived on time to meet procurement plans and implementation schedules (page 4). For the most part, commodities procured were of U.S. source and origin or appropriate waivers were obtained for those items that were not made in or shipped from the United States (page 10). Although USAID/Bangladesh incorporated the appropriate clauses in project agreements, contracts and grants, and performed site visits as part of project monitoring, the Mission did not follow pertinent USAID policies and procedures in performing end-use checks for these commodities to ensure that they were substantially being used as intended (page 14).

The audit disclosed the following:

- Some project vehicles and equipment were held up at the port of entry by the host government due to delays in clearing these imports from customs duties and taxes. At the time of the audit, commodities worth about $200,000 remained in the custody of the host government (page 4);

- Surgical sutures costing $590,000 were procured under the Family Planning project from a non-U.S. source and origin without obtaining the necessary waivers, as required (page 11);

- End-use checks on bulk commodities should be performed in accordance with USAID's policies and procedures to assure the Mission that the commodities are being used as intended (page 14);

- The monitoring of the utilization of non-expendable property needs improvement (page 19); and

- A policy on the use of project-funded vehicles needs to be established (page 22).

We believe that the above problems need prompt action on the part of USAID/Bangladesh to ensure that USAID-financed commodities are better monitored and managed. This report contains four recommendations directed towards increasing the effectiveness of the Mission's management of project commodities.

A draft of this report was provided to USAID/Bangladesh officials for their comment. In responding to the draft report, USAID/Bangladesh generally concurred with the findings and recommendations. The Mission indicated that they have commenced action to implement the recommendations in this report and accordingly two of the four recommendations made have been resolved.

We carefully considered their comments in preparing this final report. The complete text of the Mission's comments is provided in Appendix II.

Office of the Inspector General

Office of the Inspector General
March 15, 1995

Bangladesh

Population : 117 million
Area: 55,598 square miles
Capital: Dhaka

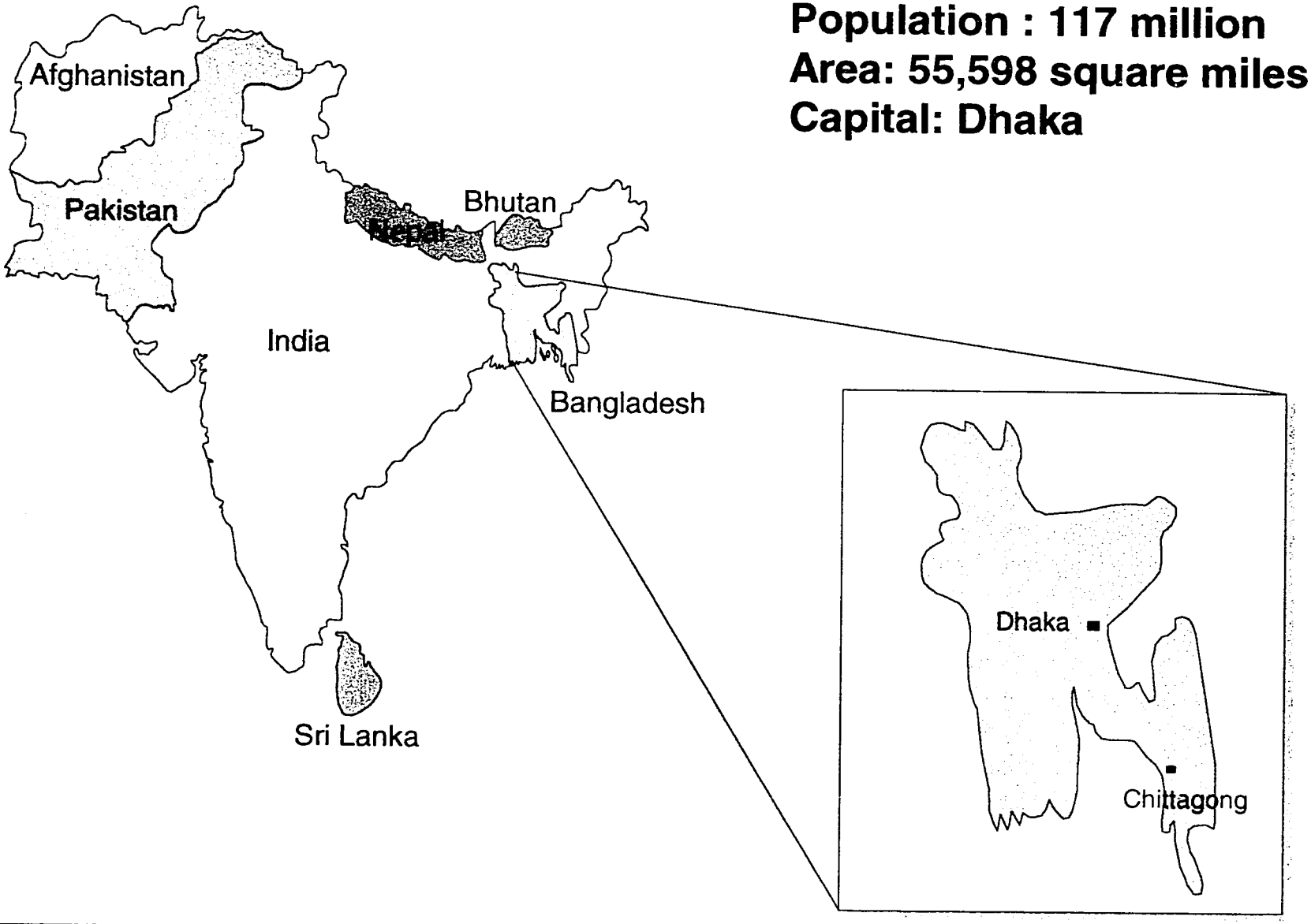


Table of Contents

	Page
EXECUTIVE SUMMARY	i
INTRODUCTION	
Background	1
Audit Objectives	3
REPORT OF AUDIT FINDINGS	4
USAID-financed commodities arrived on time to meet procurement plans and implementation schedules	4
Commodities delayed due to import duties and taxes	4
Commodity procurement complied with U.S. Government and USAID source, origin and eligibility requirements, except for	10
A procurement of surgical sutures in 1989	11
USAID/Bangladesh did not follow USAID policies and procedures to ensure that commodities were being used as intended	14
End-use checks have not been performed	14
Non-expendable property needs to be monitored	19
Policy on use of vehicles needs to be established	22

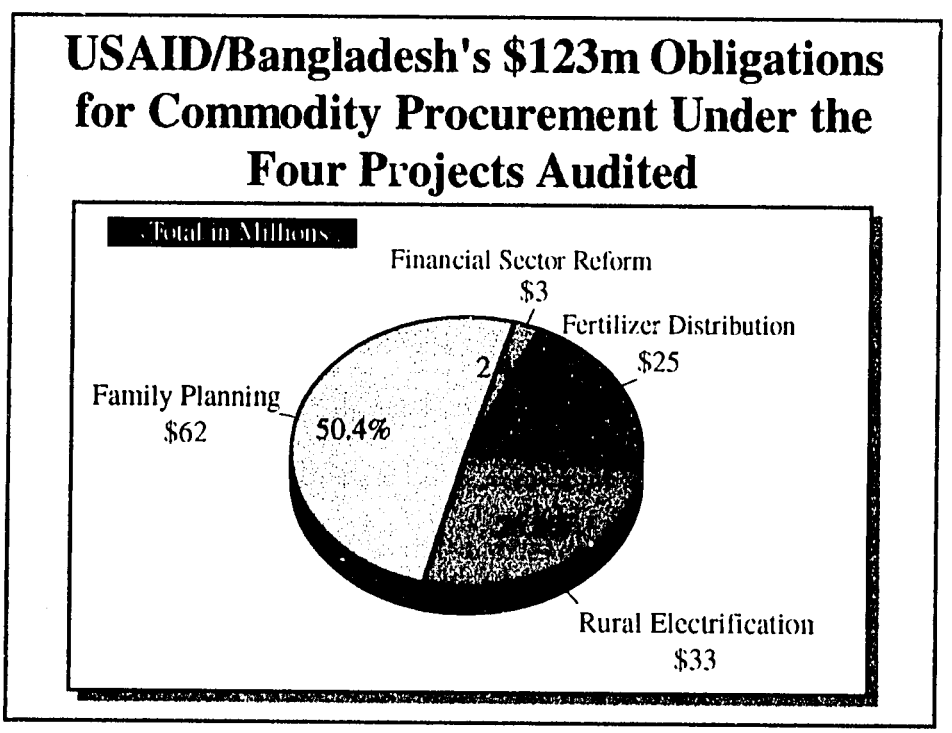
	Appendix
SCOPE AND METHODOLOGY	**I**
USAID/BANGLADESH'S MANAGEMENT COMMENTS	**II**

INTRODUCTION

Background

USAID/Bangladesh finances the purchase of commodities to help achieve the goals and objectives of its projects. USAID Handbook 1, Supplement B defines commodities as any material, article, supply, goods or equipment. As of March 31, 1994, USAID/Bangladesh obligated $128 million[1] and expended $113 million to purchase commodities and equipment under 17 active projects.

The audit covered four active projects which had commodities as one of the inputs. We reviewed commodities under the Family Planning and Health Services Project, Rural Electrification III Project, Fertilizer Distribution and Improvement Phase II Project, and the Financial Sector

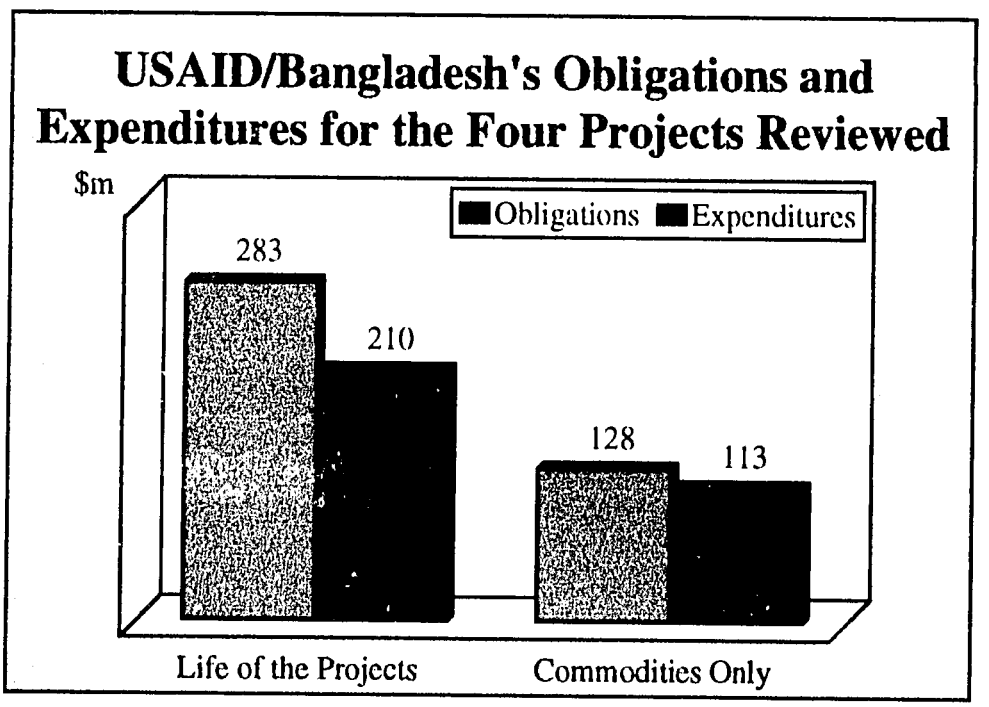


[1] This amount comprises of $123 million for bulk commodities and about $5 million for non-expendable property procured by contractors and recipients for use under these projects.

Reform Project. Obligations for commodities under these four projects accounted for about 96 percent of USAID/Bangladesh's total commodity obligations for active projects, as of March 31, 1994. The pie chart (on Page 1) shows the amounts obligated for commodity procurement under these four projects.

The four projects that we covered in this audit had life of project funding of $456 million of which $283 million was obligated and $210 million was expended as of March 31, 1994. Commodities amount to about 45 percent of the total life of project obligations of these four projects. The audit focused on bulk commodities, such as contraceptives, fertilizer, and electrification components, as well as non-expendable commodities (NXP), such as vehicles, computers, and equipment.

NXP is defined in the USAID Handbooks as property which is complete in itself, does not lose its identity or become a component part of another article when put into use, is durable, with an expected service life of two years or more, and which has a unit cost of more than $500. The bar chart below highlights the extent of our audit coverage of USAID/Bangladesh's commodity obligations relative to the projects.



Obligations for the Procurement of Commodities Amount to $128 Million or 45 Percent of Total Life of Project Obligations For the Four Projects Reviewed.

Audit Objectives

The Office of the Regional Inspector General for Audit, Singapore (RIG/A/Singapore), audited USAID/Bangladesh's management of project-funded commodities to answer the following objectives:

- **Did USAID/Bangladesh-financed commodities arrive on time to meet project procurement plans and implementation schedules?**

- **Were the commodity procurements made in accordance with U.S. Government and USAID source, origin and eligibility requirements, unless waived for good reason?**

- **Did USAID/Bangladesh follow USAID policies and procedures to ensure that USAID-financed commodities were being used as intended?**

Appendix I describes the audit's scope and methodology.

This audit is part of an agency-wide audit of USAID's management of project-funded commodities directed by RIG/A/Dakar. RIG/A/Dakar plans to prepare a summary report based on the results of this audit and the audits performed by other Regional Inspector General Offices.

REPORT OF AUDIT FINDINGS

Did USAID-Financed Commodities Arrive on Time to Meet Project Procurement Plans and Implementation Schedules?

USAID/Bangladesh-financed commodities arrived in Bangladesh on time to meet procurement plans and implementation schedules. Our review of the commodities procured under the four selected projects showed that USAID-financed commodities generally arrived on time so as not to adversely affect project implementation. However, some vehicles and other non-expendable property procured were not delivered to the project in a timely manner because the local government had not cleared these imported items from customs duties and taxes, as required.

USAID/Bangladesh Needs To Ensure That The Government Of Bangladesh Promptly Settles Import Duties And Taxes on Commodities

USAID project-funded vehicles and non-expendable property were not delivered to the project in a timely manner for two of the four projects reviewed because the Government of Bangladesh (GOB) did not clear the customs duties and taxes for these imported commodities, as required by the project agreements and USAID's procedures. While the Mission was well aware of the problem and had obtained assurances from the Government of Bangladesh that a system to clear imported commodities through customs would be put in place immediately, a system was not in place by the completion of our audit. At the time of the audit, about $200,000 worth of commodities were being withheld by the authorities, and the procurement of non-expendable property by various recipients under the $300 million Family Planning Project had been indefinitely suspended, thus causing some difficulties and delays in the implementation of project activities. In addition, over $17,000 in commodities being held at the airport by the Government awaiting

customs clearance were either damaged or missing. Other costs incurred as a result of commodities being held at the port or airport by the Government of Bangladesh amounted to over $15,000. Furthermore, the problem will be further exacerbated, if at the end of the projects, grantees and contractors cannot dispose of imported project-funded commodities because import taxes were never paid and need to be settled or waived before the commodities can be sold or turned over to the relevant host government implementing agency.

Recommendation No. 1: We recommend that USAID/Bangladesh:

1.1 suspend further procurement under affected projects until the Government of Bangladesh has effectively established and implemented their proposed system to promptly settle all import taxes, and release all commodities, including vehicles now being held in port, in a timely manner;

1.2 determine the cost of the imported equipment and issue a bill for collection to the Government of Bangladesh for the commodities that were damaged, or missing from the warehouse while in their custody; and

1.3 resolve the tax issue with the Government of Bangladesh relating to project vehicles and commodities for which import taxes were never paid and need to be settled or waived before they can be sold, or turned over to the host government implementing agency.

USAID/Bangladesh has experienced long delays in the release of imported commodities from the port of arrival due to delays by the GOB in the clearance of these items from custom duties and value added tax. Of the four active projects reviewed, the commodities under the Family Planning and Health Services Project and the Financial Sector Reform Project were affected by this problem.

The May 1974 bilateral assistance agreement between the Bangladesh Government and the United States of America provides that materials or equipment shall be either exempt from the import taxes or will be paid by the respective Bangladesh Government agency from non-USAID funds. In addition, USAID agreements with host countries routinely require the

host government to be responsible for the custom duties and value-added taxes imposed on project-funded commodities. The USAID project agreements for the four projects included in our review contained the following clause:

> *"All commodities, supplies, materials, equipment, vehicles and other goods financed by USAID and imported into Bangladesh after endorsement by the [implementing ministry] for use in this Project, including items imported for activities of the technical contractor or by their subgrantees or successor organizations or other nongovernmental organizations approved by the [implementing agency], shall be* ***exempt from all taxes****, customs duties, fees or tariffs (CDST) imposed under the laws of the People's Republic of Bangladesh. To the extent commodities imported for use in the Project...are not exempt from CDST, such costs shall be budgeted for and expeditiously paid by the [implementing ministry/agency]."*

Vehicles and equipment imported by recipients and contractors under USAID/Bangladesh's Family Planning and Health Services Project and the Financial Sector Reforms Project have been held up at port by the Government of Bangladesh for up to six and eleven months respectively pending the settlement of the import duties and taxes. As a result of these delays, grantees under these projects had problems implementing project activities.

Delivery of 39 vehicles to the Social Marketing Company, a component of Family Planning project, was delayed for up to six months. They were released only after the recipient and USAID put in substantial time and effort persuading the Bangladesh authorities to help. The Company had to pay $43,000 to store the vehicles at the port before they were released. The GOB, however, waived the demurrage charges levied by the port after lengthy persuasions by USAID and the Company. The following photograph shows some of these vehicles.

Some of the Vehicles for the Social Marketing Company That Were Held For up to Six Months at the Port by the Government of Bangladesh are Awaiting Registration in Dhaka, After Their Release to the Company (May 1994, Dhaka, Bangladesh)

At the time of the audit, another recipient, Johns Hopkins University, was unable to get the Government of Bangladesh to release commodities about twelve months after their arrival in port. Two vehicles for Johns Hopkins University were held in the GOB's port warehouse in Chittagong while three computers, two printers, and two multisplit-unit air conditioners were held in a warehouse at the airport in Dhaka. About $5,000 in demurrage charges have accumulated and the taxes due on these items are about $73,500. Due to the delays in releasing these imports (value $53,600), Johns Hopkins rented a car at $25 a day for eight months to fulfill the needs of the project, thereby incurring unnecessary cost of $6,000. Similarly, two computers were rented for nine months at a total cost of $4,500, to carry out project activities.

During our visit to the port, the grantee successfully negotiated another 60-day extension from the customs office for the vehicles. If not for the extraordinary efforts of the grantee, the vehicles would have already been auctioned by the local port authorities. At the airport, we found that two printers and parts of several computers could not be located and three computers were damaged. Storage conditions, security and controls over the commodities at the airport warehouse were very poor. An official for

the Government, the current custodian for these shipments, said that his agency (Biman Aircargo) is not responsible for the deterioration or damage for import shipments held in port for more than 30 days after arrival. In addition, insurance coverage for the shipment does not cover these goods beyond 30 days. As Johns Hopkins has no basis for recovering damages against the GOB, the insurer or shipper, the costs of these damaged or missing commodities amounting to $17,500 will be borne by USAID.

Due to the problems experienced by the Social Marketing Company (SMC) and Johns Hopkins University, 6 of the 7 other recipients that we contacted under the project stated that they were delaying procurement actions until this issue is settled. Commodities that have not been procured include vehicles and computers which are essential in the effective implementation of the project.

Under the Financial Sector Reform Project, participating banks were made liable for the import taxes of $152,000 on the vehicles and computer equipment imported. The authorities released these computers and printers to the grantees on the condition that they acknowledge the liability for the import taxes. The banks will have to pay the import taxes, thus putting a financial burden on them. Should the banks decide not to pay the taxes now, due to the lack of funds, they will have to be paid when the commodities are disposed at the end of the project--when the computers are old and of little value.

Further, grantees and contractors cannot always dispose of imported project-funded commodities at the end of the project because of the change in the Government's system for paying import taxes on project commodities. Since project-funded vehicles and equipment were exempted from import taxes under the old system, some USAID recipients and contractors are now having difficulties disposing of them because the import taxes were never paid and need to be settled or waived before vehicles and equipment can be sold or turned over to the host government implementing agency. As the **amount of tax far exceeds the value of the commodity at the end of its useful life, there is no incentive to pay the tax; and it remains unpaid.** Some of these vehicles and equipment are stored in the garages and backyards of recipients and contractors. As this change only affected USAID projects in early 1993, this problem will grow bigger in the future, particularly when projects or contracts expire and closeouts are necessary. The negative result of this change will not only include the extra costs to store these commodities and the deterioration of the commodities, but the added USAID and recipient time required to dispose of these commodities.

The Mission made extensive efforts to understand the GOB's policy on the tax issue. Several meetings were held with host government officials, and according to senior Mission management officials, the Mission has obtained assurances from the GOB that an efficient system to clear imported commodities through customs will be put in place immediately. While the Mission was well aware of the problem and had obtained assurances from the Government of Bangladesh that a system to clear imported commodities through customs would be put in place immediately, a system was not in place by the completion of our audit.

Management Comments and Our Evaluation

USAID/Bangladesh generally agreed with the finding and our recommendations under this objective. In their written response to the draft report, the Mission stated that they believed that the system established to ensure that the Government of Bangladesh promptly settles import taxes on equipment (Recommendation No. 1.1) is working, although there are occasional glitches. The Mission has been able to resolve these problems as they arise and they have determined that there are no commodities being withheld by the authorities. With regards to Recommendation 1.2, the Mission will determine the amount of damaged and missing equipment and a bill for collection will soon be issued. Based on the Mission's response, part 1.1 of the recommendation is considered resolved and closed, and part 1.2 is resolved and will be closed when the Mission issues a bill for collection. Part 1.3 remains unresolved.

Were the Commodity Procurements Made in Accordance With U.S. Government and USAID Source, Origin and Eligibility Requirements, Unless Waived for Good Reason?

Except for a procurement of $590,000 in surgical sutures, commodity procurements were made in accordance with U.S. Government and USAID source, origin, and eligibility requirements, or waivers were obtained with good reasons.

Our audit found that, for the four projects reviewed, the Mission made serious efforts to follow the spirit and intent of the "Buy America" initiative. When it was not practical to buy American-made products, e.g., right-hand drive vehicles or electrical equipment, waivers were prepared with proper justification and authorization was obtained at the proper level.

In the case of the Rural Electrification Project III, the project officer stated that about 55 percent of the $25 million in electrical components used to build the activities was procured from U.S. source and origin. Based on our review of selective documentation and personal observations, we agree that at least 55 percent was procured from U.S. source and origin. The project allowed for procurement in the U.S., Bangladesh, and other developing countries. This percentage was achieved under a host-country contract, making it even more commendable, as the procurement was not controlled directly by USAID.

All of the $20 million in fertilizer procured under the Fertilizer Distribution Improvement II Project was procured from U.S. source and origin, as required, by USAID policy.

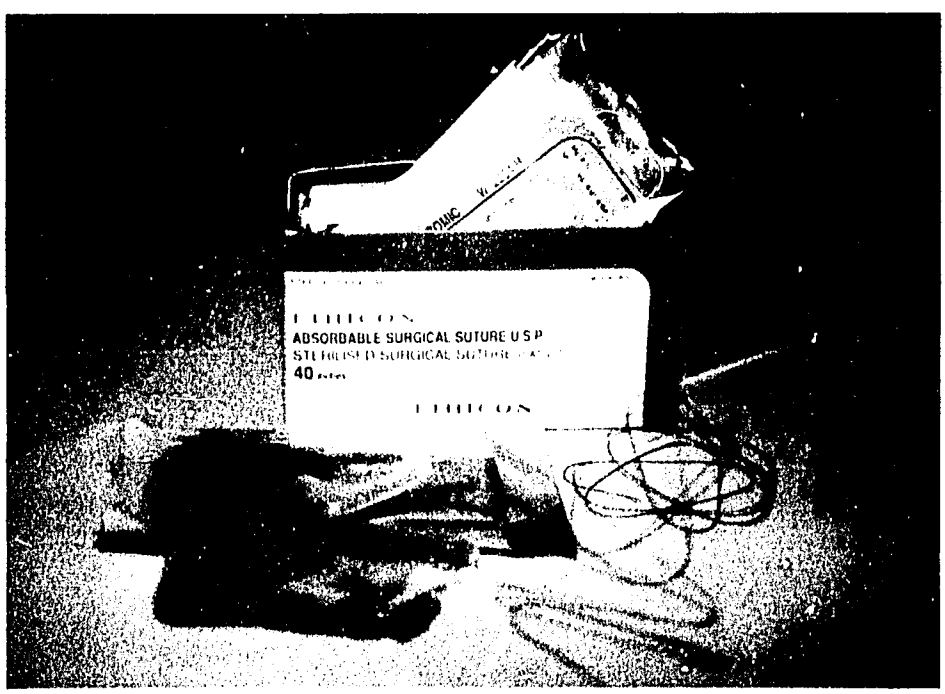
Under the Financial Sector Reform Project, we found that the computers, equipment, and vehicles were not always of U.S. source and origin. However, waivers with proper justifications were obtained when needed. The technical assistance contractor for the project also sought to ensure that vendors for the computers and computer equipment purchased had servicing agents in the host country.

Finally under the Family Planning project, contraceptives procured such as pills and condoms amounting to $59 million were of U.S. source and origin. However, we noted the following exception.

Non-U.S Source and Origin Sutures Were Procured by USAID/Bangladesh Without Obtaining a Waiver

USAID/Bangladesh procured 1,476,000 surgical sutures of a non-U.S. origin from a non-U.S. source. These sutures were bought in 1989 from a foreign affiliate of a U.S.-based corporation at a cost of about $590,000. While it is not clear why the Mission took this action, it appears that they were unaware of the requirement that an exception from the U.S. source requirement to permit a specific pharmaceutical procurement from a code 941 country requires the authorization of USAID's Office of Procurement in Washington. In doing so, they failed to ensure that the sutures met U.S. pharmaceutical quality standards.

USAID/Bangladesh procured 1,476,000 catgut sutures with a value of about $590,000 to be used in the sterilization program as part of the Family Planning project. They were procured through a purchasing agent from Johnson and Johnson Limited, India, an affiliate of the U.S.-based corporation. These sutures were manufactured and air shipped from Bombay, India. The following photograph shows some of these catgut sutures.



Catgut Sutures Made by Johnson and Johnson in India Were Bought Without Obtaining the Necessary Source and Origin Waivers (May 1994, Dhaka, Bangladesh)

USAID Handbook 1, Supplement B, states that exceptions to the general rule that USAID-financed pharmaceuticals must be of U.S. source may be made after consultation with the Office of Procurement in Washington if Code 941 is the authorized source for the procurement under the loan or grant agreement. It further states that waivers will be considered if: the pharmaceutical product is essential to the project; the product is not available from the United States, or the delivered price from the United States would be at least 50 percent more than from another source; and information is available to attest to the safety, efficacy, and quality of the product, or the product meets the standards of the U.S. Food and Drug Administration or other controlling U.S. authority.

While the sutures procured met the specifications shown in the purchase contract and were actually procured at a significantly lower cost than in the U.S., no determination was made as to whether the sutures met U.S. Food and Drug Administration Standards, as required. Mission records showed that they received a May 10, 1987 cable from USAID/Washington directing missions that for all procurement of pharmaceuticals, USAID/Washington[2] will review the documents to determine the proper procurement agent, most likely either the U.S. General Services Administration or the Veterans Administration.

The Mission procured the sutures under USAID Geographic code 941, which includes India. When they notified USAID/Washington as required by Handbook 15, USAID/Washington informed them that they should consider using an interagency agreement with the Veterans Administration to procure the sutures as pharmaceuticals were generally to be procured from U.S. sources only. USAID/Bangladesh responded that they had already awarded a contract to a purchasing agent, and continued to procure the sutures without obtaining an appropriate waiver as required by USAID Handbook 15.

USAID/Bangladesh's response to USAID/Washington's objection to the procurement went on to state the following:

> *"We regret that we did not pass the PIO/C [Project Implementation Order/Commodities] through M/SER/COMS [USAID/Washington] prior to the contract award. However, we were not aware of [the] requirement."*

While we feel no need for a formal recommendation as USAID/Bangladesh intends to procure 330,000 additional catgut sutures in the near future,

[2] The Commodity Support Division (SER/OP/COMS) of USAID's Office of Procurement in Washington

the need to review and comply with relevant USAID policies and procedures related to the procurement of pharmaceuticals is timely. Where necessary, the Mission's actions should be properly justified and appropriate waivers obtained.

Management Comments and Our Evaluation

The Mission agreed with the finding and did not provide any additional comments. We did not consider it necessary to make a formal recommendation given that the procurement of the surgical sutures was one isolated exception noted.

Did USAID/Bangladesh Follow USAID Policies and Procedures to Ensure that USAID-Financed Commodities Were Being Used as Intended?

USAID/Bangladesh did not always follow USAID policies and procedures to ensure that USAID-financed commodities were being used as intended. Based on the four projects that were reviewed, we found that (1) end-use checks on commodities were not properly performed, (2) non-expendable property was not properly monitored and inventories were not retained, and (3) although some project vehicles were not always used as intended, nothing came to our attention during the audit to indicate that commodities were not generally being used as intended.

USAID/Bangladesh did observe several USAID policies and procedures to help ensure that USAID-financed commodities were being used as intended. This included incorporating the appropriate clauses in contracts and agreements and performing site visits. For example, as required by USAID Handbook 3, USAID/Bangladesh included the following clause in all four project agreements with the Government of Bangladesh:

> *"Section B.3 Utilization of Goods and Services... (a) Any resources financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project."*

The Mission also included the appropriate contract clause with its main contractors for the projects--AIDAR 752.245-70 and 71--which calls for the contractor to establish a program to properly control non-expendable property and to submit an annual inventory report to USAID on non-expendable property. Nevertheless, the audit disclosed several areas where increased attention by the Mission is warranted, as discussed below.

End-Use Checks Have Not Been Performed

Project officers did not perform or require that end-use checks of bulk commodities be performed by other parties for the four projects examined. Generally, project officers believed that an "end-use" check was to be

performed at the end of the project. In other cases end-use checks were not considered possible. Handbook 15, Chapter 10 requires that a system be developed to ensure the arrival, disposition, and utilization of USAID commodities. USAID is required to monitor or directly implement the system depending on the circumstances involved. For the four projects reviewed, with commodity expenditures of about $113 million, we found that the Mission did not perform the checks that would determine if the commodities were substantially utilized as intended.

> **Recommendation No. 2: We recommend that a system of end-use checks be developed for each active project. These checks should be performed and documented at appropriate intervals throughout the life of the project to ensure that project funded commodities are being used as intended.**

USAID's policy on the use of project-funded commodities as specified in USAID Handbook 15, Chapter 10 requires the host government to ensure the effective use of commodities for the purpose for which the assistance was made available. Effective use is defined as delivery and use in accordance with project implementation plans. Section 10C of the Handbook states:

> *"...AID requires that project implementation plans include procedures assuring that commodities are received and used in a timely manner. The USAID is responsible for the review of project progress reports to verify that commodities financed by USAID are being effectively used in the project--or if not, are transferred to other projects or otherwise disposed of as approved by the USAID."*

The Handbook goes on to explain end-use review procedures in Appendix 10A, Attachment B which emphasizes that **it is essential that end-use reviews be made.** This section states that:

> *"To keep the Mission Director and appropriate USAID offices informed of usage of equipment and commodities and to assure proper utilization and adherence to USAID regulations and project agreements, it is essential that end-use reviews be made."*

Among the many procedures contained in the end-use reviews guidelines, including the physical observation and verification of commodities on

hand, the handbook specifies that USAID should:

> *"Determine whether the commodities are being utilized properly...the desired results or benefits are being achieved and whether the objectives established by the program or project agreements are being met."*
>
> *"Determine if the importer/project organization has an overall commodity utilization plan with measurable, interim levels of achievement."*

For the four projects reviewed, USAID/Bangladesh generally did not perform end-use reviews for most commodities, as required. Although project officers did make site visits and did come across these commodities being used for the intended purposes, they did not review the overall use of the bulk commodities, or review reports that determined whether the commodities were properly used and whether the desired benefits were achieved.

As the imported commodities are usually turned over to the host government, Project Officers relied on the contractors or the host government to ensure their proper use. They said that during the life of the project, the contractors or the host government would keep track of the import and distribution of the commodities. Records on the use of the commodities were maintained and data would be gathered by the contractors. However, the Mission did little to analyze this information and determine whether the commodities were substantially used as intended, i.e., whether the amounts used matched the amounts imported. Project officers also indicated that it can be very difficult or impossible to do end-use checks as these bulk commodities such as condoms, contraceptive pills and fertilizer are expendable (they are used or consumed), hence no procedures were designed to verify the use of such commodities.

For the Rural Electrification III Project, the project officer stated that he intends to perform an end-use check when the project is completed. While he did not have a written plan for this review, he did verbally describe his methodology as evidence of his intentions. With the project nearing completion, this may be the best approach at this time. However, we believe that an end-use check should have been performed for each procurement. This would allow the project officer to correct any identified deficiencies in the distribution and use of the commodities procured before more funds are expended.

The methodology proposed by the project officer is the use of analytic review procedures. By comparing inputs versus kilometers of electrification built multiplied by inputs required per kilometer, it could be determined if the inputs appear reasonable. This approach still requires a measure of visual inspection to insure that the electrification meets specifications with regard to components per kilometer.

For the Financial Sector Reform project, it would be appropriate to schedule end-use checks after major procurement, installations, or other important stages of the project. An end-use check would have identified some of the implementation problems we found, e.g., inconsistent utilization of the computers and total disuse of the high speed printers procured under the project due to the poor print quality and the lack of demand for high speed printing. We observed use of the computers at two of the five banks under the project and found one bank using them on a two shift per day basis for data entry. The other bank was using them for processing a few short memorandums and for training. End-use checks of utilization would facilitate improved implementation not only of these commodities, but of the project as a whole.

The Family Planning project presents certain challenges with regard to end-use checks as the bulk commodities--mainly condoms and contraceptive pills--are expendable. Also, there are several other donors that contribute to the project and identifying the use of the USAID commodities separately is difficult. Nevertheless, analytical review techniques, studies, and analysis based upon information readily available would provide a reasonable level of assurance that commodities were used as intended.

A draft report prepared by an international donor organization identified a very large difference between condoms reportedly used in Bangladesh and those distributed. The study estimated that during the year 1991, about 146 million condoms were distributed but only 75 million condoms were reportedly used--a 71 million "condom gap". As the demand for condoms continued to increase, the condom gap also increased to 106 million in 1992 and 136 million during 1993. At the contract price of five cents per condom, the condom gap for the three years from 1991 through 1993 of over 313 million condoms cost approximately $15.6 million. The table below summarizes our analysis of these numbers and amounts.

Year	Quantity Distributed ('000)	Quantity Used ('000)	Condom Gap ('000)	Amount ($)
1991	146,208	75,150	71,058	$3,552,900
1992	190,232	84,000	106,232	$5,311,600
1993	227,403	91,200	136,203	$6,810,150
	563,843	**250,350**	**313,493**	**$15,674,650**
1994*	247,226	99,950	147,276	$7,363,800
Total	**811,069**	**350,300**	**460,769**	**$23,038,450**

* 1994 amounts are based on estimates

Another 1992 study on condom use in Bangladesh has identified many potential reasons for the difference including the underreporting of usage, cross-border sales, usage as balloons, and defects in the study. However, the study did not account for the differences. USAID as the principal provider of condoms and technical assistance for family planning in Bangladesh during the period studied, should be interested in investigating the cause for such large differences, account for them, and take appropriate action to minimize any wastage.

While information on the use of condoms under the Social Marketing component of the project is extensive, it is not nearly as complete as that for the public sector component. For the public sector, detailed information on each contraceptive user is gathered, including the individual names, quantity of contraceptives given, and date. An analysis of this readily available information with regard to end-use versus inputs would provide meaningful conclusions on whether the commodities were being used as intended. We believe that the results of such analysis would provide a basis for determining the reasons for the large condom gap in Bangladesh.

Under the Fertilizer Distribution Improvement project, the single bulk commodity procured was organic fertilizer. In performing end-use checks, fertilizer cannot be inventoried as it is used by farmers for farming activities. Further, the project is part of a multi-donor effort in which USAID provides the technical assistance and some commodities, thus

making it almost impossible to isolate fertilizer from that of the other donors. However, in performing end-use checks, the project officer could use available detailed information on the distribution and use of fertilizer that is gathered by the contractor. This data should be analyzed and compared to related project inputs and outputs as a measure of end-use. The project officer felt that as the project is ending, it might be a good time to do the end-use checks.

As shown for each of the four projects we reviewed, end-use checks are not always a simple inventory exercise or a project close-out function that is performed at the end of the project. While this is the approach taken with regard to non-expendable property, it is not an effective means for ensuring proper end-use of bulk commodities that are more significant in volume and cost. The Mission needs to develop a system for verifying end-use of bulk commodities and ensure that the method used to perform these checks is clearly defined for each individual project. These checks should be performed throughout the life of the project and they should involve the examination of records maintained by contractors or the host government agencies, the analysis of usage data, site visits, and physical verification to test the accuracy of data used.

Management Comments and Our Evaluation

The Mission agreed with the recommendation and indicated that they will develop a complete end-use check plan for each active project and project officers will report on the implementation of the plan in the semi-annual Project Status Reports. Based on this proposed action, and as requested by the Mission, Recommendation No. 2 is considered resolved and will be closed when the Mission provides evidence to support the effective implementation of the end-use-check plans established.

The Mission Needs To Better Monitor The Utilization Of Project Non-expendable Property

USAID/Bangladesh did not properly monitor the utilization of project-funded non-expendable property (NXP) handled by recipients, grantees and contractors as required. The Mission did not always: (1) obtain and review NXP inventory reports from the recipients and contractors; and (2) verify that these commodities were being used for project purposes in accordance with USAID policies and procedures. Mission officials relied on the contractors and recipients to properly manage and control these

commodities, and use them for project purposes. However, they did not ensure that these functions were properly performed for project-funded non-expendable property. As a result, they had no assurance that these organizations were complying with the terms of their agreement to properly account for all property procured under projects.

Recommendation No. 3: We recommend that USAID/Bangladesh:

3.1 require project officers to obtain and review non-expendable property inventory reports from all contractors and recipients on a periodic basis; and

3.2 require project officers to verify that non-expendable property is utilized for the intended project purposes.

USAID Handbook 15, Chapter 10 outlines USAID policies and procedures to ensure that commodities are properly accounted for and appropriately used. The Handbook also states that USAID is responsible for monitoring these commodities to ascertain their effective use. The Mission included the appropriate contract clauses in their major technical assistance contracts—AIDAR 752.245-70 and 71—which calls for the contractor to establish a program to properly control non-expendable property and to submit an annual inventory report on non-expendable property. Similarly, USAID Handbook 13 for Grants requires grantees to maintain records on non-expendable property and to provide such reports to the Mission.

USAID/Bangladesh relied on the contractors and grantees to a large extent to comply with the above clauses and utilize the commodities for project purposes. Project officers were required to make site visits to verify that commodities were being used as determined in project agreements. However, the Mission did little additional monitoring to determine whether most of the non-expendable property was being substantially used as intended or verify its use.

For the four projects examined we found that project officers did not have the required annual non-expendable property (NXP) inventories. Some project officers indicated that they were aware that NXP reports were prepared and maintained by the contractors and the recipients, as required in the agreements. However, we found that these inventory records were not always readily available. These records also lacked the required information or were out of date. Project officers did not review

the inventory list or ask for it during their site visits. Some project officers said that they did not have the time to carry out such activities during site visits. And said that they believed that the review of the NXP inventory lists of recipients and contractors is performed by their auditors as part of the regularly scheduled audits of these organizations.

Although the Mission did establish the requirement for the grantees and contractors to submit their non-expendable property reports annually, they did not feel the need to obtain these reports from the grantees and contractors for their monitoring purposes. Without these reports, the project officer is unable to determine if the commodities purchased under the agreement are in fact in the possession of the contractor and have been recorded by them, as required. We believe that the inventory list is also essential to the project officer when deciding whether to approve future procurement and in designing and budgeting for future projects. Furthermore, the utilization of such property can easily be verified by using the inventory list during site visits.

The Mission needs to obtain and review the contractors' and recipients' inventory reports in order to obtain sufficient assurance that these organizations were complying with the terms of their agreements to properly account for all property procured under projects. These reports should be examined for completeness and adequacy and should be used by project officers in making decisions related to the approval and disposition of project-funded commodities. Also, as part of the project officers' normal monitoring activities, the use of commodities in the field could be checked against the inventory lists during site visits.

Management Comments and Our Evaluation

USAID/Bangladesh agreed with the recommendation, and as is the case for the end-use of project-funded commodities, the Mission will develop and implement a plan for each active project. We did consider the Mission's suggestion to combine this finding with the previous finding on page 13 of this report. However, because of the different criteria and requirements for monitoring the end-use of bulk commodities and those procedures to be followed for non-expendable property, we continue to present the findings and recommendations separately. Nevertheless, the Mission may choose to address these two separate findings in their overall end-use check plans for each project and present them together in the semi-annual Project Status Reports.

The requirement for contractors and recipients to maintain and report to USAID their inventory of non-expendable property is essentially the same requirement under all projects. In contrast, the procedures for USAID's monitoring of such inventory reporting by contractors and recipients is quite different from the specific plans that the Mission proposes to develop for monitoring the end-use checks of bulk commodities. As such, Recommendation 3 remains unresolved, and the Mission needs to outline specific procedures that will be taken in response to the recommendation made.

The Mission Needs to Establish Policy on the Use of Project-Funded Vehicles

For the 11 organizations (under the 4 projects) covered under the audit, we found that there was no consistent policy on the management of project-funded vehicles. USAID did not have a clear policy that would apply to contractors and grantees. Each organization had their own procedures, formal or informal, and in certain cases, there were none. Their policies varied from charging for personal use and commuting at appropriate rates to assigning vehicles at no charge for commuting and personal use. Without a uniform policy, the Mission has no assurance that vehicles are being properly used and that costs associated with personal use are being recovered.

Recommendation No. 4: We recommend that USAID/Bangladesh:

4.1 establish a uniform policy on the personal use of project-funded vehicles, and recover the cost of the personal use of such vehicles from the users; this policy should be extended to contractor and grantee recipients.

4.2 critically review the contractor's vehicle allocation and utilization practices and reevaluate the need to procure 24 more vehicles under the proposed Agriculture Project.

In the case of two projects, project vehicles were being used for commuting and other personal trips. At least 8 of the 27 operational vehicles managed by the technical assistance contractor under the Fertilizer Distribution Improvement II Project were mainly used for

commuting. Our review of the vehicle log records for the month of December 1993 revealed that over 50 percent of the total miles travelled for these eight vehicles were for commuting as compared to trips made for official project purposes. In reviewing the inventory list for project vehicles, we found that the contractor did not operate a motorpool. Instead, they assigned most of the 27 vehicles, each with a driver, to individual staff. In this arrangement, the drivers drive each of the employees from their homes to the office and back each day. The contractor charges their employees a nominal amount for transportation which does not sufficiently cover the operating cost of these vehicles.
In addition, a planned follow-on Agricultural project proposed the $600,000 procurement of another 24 vehicles for the same technical assistance contractor (paragraph above) at a cost of $25,000 each. Also, budgeted vehicle operating costs for the first five years--the cost of gas, maintenance, and drivers--amount to $5,000 per year for each vehicle. Therefore, the Mission is proposing to spend a total of $1.2 million on additional vehicles over the first five years of the eight-year project. We believe that the Mission needs to reassess the need to procure more vehicles under the proposed project. Also, the Mission should require the contractor to operate a motorpool as a way of better reducing unnecessary use of project vehicles for commuting and personal trips. The funds budgeted for any unnecessary vehicles under the follow-on Agriculture project should be reprogrammed and put to better use.

In another instance, the technical assistance contractor under the Rural Electrification III project did not have a policy to charge their employees for the personal use of project vehicles. The Contractor believed that these vehicles were the property of the Rural Electrification Board of the Government of Bangladesh as they were procured under a host country contract. However, the contract states that all property shall be under the control and custody of the Contractor. The Contractor should establish and enforce a program for the protection, maintenance and use of the vehicles under their control and custody. The vehicles will eventually be turned over to the host government when the contract work is completed.

The Mission needs to establish a policy that clearly identifies the status of project-funded vehicles, their authorized use, and the persons authorized to use them. In addition, the policy should determine the charge for non-official use and commuting. This revised policy should be distributed to each contractor and grantee requiring them to implement the applicable procedures. Project Officers should occasionally examine the vehicle logs maintained by contractors and grantees to ensure that established policies and procedures are being followed and that users should be made to bear the cost for commuting and personal use.

Management Comments and Our Evaluation

USAID/Bangladesh agreed with the finding and recommendations. Recommendation 4.1 has been limited to project-funded vehicles as requested by the Mission in their comments. The Mission plans to revise the Manual Order on the use of project vehicles, hold a workshop to explain the requirements to contractors and recipients, and monitor compliance through audits and financial reviews. Part 4.1 is therefore considered resolved.

With regards to Recommendation No. 4.2, the Mission stated that the previously planned procurement of 24 additional vehicles has been cancelled due to a reduction in funding for the new Agriculture Project. This reduction was necessary following an unexpected reduction in USAID/Bangladesh's Operating Year Budget. Accordingly, this part of the recommendation is considered both resolved and closed, and the proposed $1.2 million project expenditure for the vehicles and their estimated operating cost for five years will be saved.

SCOPE AND METHODOLOGY

We audited USAID/Bangladesh's management of project-funded commodities in accordance with generally accepted government auditing standards. The audit was performed from February 22, 1994, through July 21, 1994. We conducted our fieldwork at several locations in and around Dhaka, Bangladesh including, (1) the USAID/Bangladesh offices, (2) the offices of the various project implementing agencies and ministries of the Government of Bangladesh (GOB), and (3) the offices of the USAID and GOB contractors, grantees and recipients. We also made field trips to the GOB offices and warehouses in Khulna, Chittagong, Jessore, and the airport in Dhaka.

The audit covered four of the six active projects that had commodities as a project input. These four were the Family Planning and Health Services Project, Rural Electrification III Project, Fertilizer Distribution and Improvement Phase II Project, and the Financial Sector Reform Project. As of March 31, 1994 USAID/Bangladesh obligated $128 million for the procurement of commodities, or 45 percent of the total $283 million obligated under these four projects.

The audit determined if USAID/Bangladesh-financed commodities arrived on time for project implementation and whether the commodity procurement were made in accordance with USAID source, origin and eligibility requirements. In addition the audit determined if the Mission followed the Agency's policies and procedures to ensure that the commodities were used as intended. In answering the audit objectives, we tested whether USAID/Bangladesh followed applicable internal controls and complied with certain legal requirements. Our audit tests were designed to provide reasonable assurance that the answers to the audit objectives are valid. We also included steps to detect abuse or illegal acts which could affect the audit objectives. Mission management provided written representations which we considered essential to answering the audit objectives and assessing internal controls and compliance.

We obtained USAID/Bangladesh's computer generated accounting reports showing obligations and expenditures for all projects by line items. We reviewed the active projects and selected four projects with significant amounts expended for commodities. The focus of the audit was on bulk commodities but selected non-expendable property was also covered. We identified the contractors, grantees and recipients under the selected projects and reviewed the non-expendable property procured by them from available records.

We did not attempt to verify the overall reliability of the computer-generated data in the Mission's accounting system (MACS) which was used to identify and select the active projects (e.g. obligations and expenditures for commodities). However, this did not have any effect on our ability to answer the audit objectives. Also, we did not test records and reports obtained from contractors, recipients and the host government.

For each audit objective, we reviewed applicable policies and procedures contained in USAID Handbooks and supplemental guidance and, the Foreign Assistance Act of 1961, as amended, to identify any legal and policy issues related to the audit objective. We also interviewed Mission officials to obtain an understanding of the Mission's system for complying with the requirements. We reviewed the internal controls relevant to the audit objective, and based on the results of this review and an assessment of risk and vulnerabilities for each audit objective, we judgmentally selected material items for testing. We obtained testimonial and documentary evidence from USAID/Bangladesh officials, and analyzed the reliability and sufficiency of such evidence in arriving at our conclusions. For problem areas, we did additional work to identify the cause and effect of the problem, and made recommendations to correct the problem and the cause.

Our audit procedures included the review of project papers, project agreements, project reports, correspondences to and from the Mission, contracts and grants. We interviewed mission officials, contractors, recipients and host government officials and reviewed available documentation and reports to substantiate the interviews. In addition, we reviewed inventory reports, physically inspected and verified selected items, inspected selected commodity storage facilities, reviewed contractor reports on the utilization of commodities and non-expendable property, and reviewed the Mission's status reports for the selected projects.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
Dhaka, Bangladesh

17 FEB 1995

MEMORANDUM

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

FROM: Richard M. Brown, USAID/Bangladesh

SUBJECT: Draft Audit Report on the Management of Project-Funded Commodities in Bangladesh

We are indeed happy to note that two of the three areas covered in your audit are operating effectively. The third area, after relatively minor actions we will take as recommended by you, will be operating more effectively. Specifically, we note your audit disclosed that:

1) USAID/Bangladesh financed commodities generally arrive in time to meet project plans and implementation schedules

2) USAID/Bangladesh generally follows U. S. source, origin, and eligibility requirements

3) with improvements in monitoring personal use of vehicles by contractors/grantees and end use checks, which we plan to aggressively implement, USAID policies and procedures to ensure that commodities are being used as intended will be stronger

We have one general comment concerning the use of photos in the report. The draft report contains two spaces for insertion of photos. We have no objection to inclusion of the photo of Social Marketing Company vehicles at the port. We have not seen the second photo captioned, "catgut sutures made by Johnson and Johnson in India were bought without obtaining the necessary source and origin waivers." Since the audit report never stated or implied that there was a problem with the quality of the sutures, we question the utility of the photo. <u>If the second photo is still planned for insertion, we would like a chance to see it and comment on it before publication of the final report.</u>

Specific comments keyed to page numbers in the draft report follow.

Page 2: the 99% figure, according to our calculation should be changed to 96%, 123/128=.96

Pages 4-9: The discussion of Customs Duties/Value Added Tax and USAID/Bangladesh project commodities thoroughly explains some very complicated issues. Readers should note that the $200,000 of commodities withheld by the authorities represents only .1% of the $210 million of purchased commodities covered in the audit. Nonetheless, we agree that the issues are important and must be resolved.

Recommendation 1.1 states, "suspend further procurement under affected projects until the Government of Bangladesh has effectively established and implemented their proposed system to promptly settle all import taxes, and release all USAID-funded commodities, including vehicles now being held in port, in a timely manner." As you note in the audit report, USAID/Bangladesh has taken the issue related to this recommendation to high levels in the Government of Bangladesh and, also, as you note, a workable system for resolving the issue was established at the time of the audit fieldwork. We believe that the system is working. We were under no illusion that the implementation of this system would be simple. But the system, with occasional glitches that we identify and resolve, is working. To test this assertion, during the month of January, 1995 our project officers canvassed their contractors and grantees. We determined that there were no commodities being withheld by the authorities at that time. This can be verified by the auditors by directly contacting the contractors and grantees. As stated above, we have had glitches in the implementation of the system but it is working and <u>we therefore recommend that Recommendation 1.1 be dropped or closed upon report issuance.</u>

Regarding Recommendation 1.2, "issue a $17,000 bill for collection to the Government of Bangladesh for the USAID funded commodities that were damaged, or missing from the warehouse while in their custody," we agree with the thrust of the recommendation. However, in our work to prepare the bill we have noted that some of the commodities have been received by the contractor and the amount of the bill of collection will likely be different from the amount stated in the recommendation. <u>We suggest that the amount not be stated in the recommendation.</u> Upon issuance of the bill we will fully explain to you how we derived the amount of the bill.

Regarding Recommendation 1.3, "resolve the tax issue with the Government of Bangladesh relating to project vehicles and commodities for which import duties were never paid and need to be settled or waived before they can be sold, or turned over to the host government implementing agency at the end of the project," <u>we agree with the recommendation.</u>

28

We have one final comment on this section of the report. On page 6 it states that "the recipient (SMC) put in substantial time and effort persuading the Bangladesh authorities to help." We agree with this statement but believe it should be disclosed that USAID/Bangladesh also put in substantial time and effort on this same issue of SMC vehicles.

Pages 10-13 We suggest that on page 10, "Finally under the Family Planning project, contraceptives procured such as pills and condoms amounting to $59 million were generally of U.S. source and origin," the word "generally" be dropped. As you note in the audit report, the "exception" to complying with the source and origin requirement relates to catgut sutures which are not contraceptives.

Pages 14-23 Regarding Recommendation 2, "We recommend that a system of end-use checks be developed for each active project. These checks should be performed and documented at appropriate intervals throughout the life of the project to ensure that project funded commodities are being used as intended," we agree with the recommendation. Our plans to close this recommendation are to review the situation in each active project and develop a complete end use check plan which includes bulk commodities and NXP. Project Officers will include implementation of their end use check plan in the semi-annual Project Status Reports. We, therefore, request that this recommendation be declared "resolved" upon report issuance and closed once USAID/Bangladesh develops an end use check plan for each active project and includes end use check plan reporting in the semi-annual PSRs.

We suggest that on page 16, the word "expandable" be changed to "expendable."

We have no quarrel with the spirit of Recommendations 3.1 and 3.2 but find them repetitive. Both of the recommendations refer to NXP end use check plans. This is already covered in Recommendation 2. In the interest of simplicity we suggest that these recommendations be dropped or that simply NXP be mentioned in Recommendation 2.

Regarding Recommendation 4.1, "establish a uniform policy on the personal use of project-funded property, including vehicles, and recover the cost of the personal use of such property from the user; this policy should be extended to contractor and grantee recipients," we agree with the recommendation except that we suggest that it be limited solely to project funded vehicles. The auditors found no problems related to project-funded property other than personal use of vehicles. Our plan is to revise our Manual Order on this issue, hold a workshop with our contractors and grantees to make sure they understand the Manual Order, and then monitor compliance thru audits and financial reviews. We request, therefore, that this recommendation be declared "resolved" upon report issuance and closed once the Manual Order is issued, the workshop is held, and the monitoring plan is established.

Regarding Recommendation 4.2, "critically review the contractor's vehicle allocation and utilization practices and reevaluate the need to procure 24 more vehicles under the proposed Agriculture Project," we agree with the substance of the recommendation. But, we request that it either be dropped or declared closed upon report issuance because an unexpected reduction in USAID/Bangladesh's Operating Year Budget has necessitated a scaling back of the project and cancellation of all previously planned vehicle procurement.

Please do not hesitate to notify us if clarification is needed on any of the above.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
Dhaka, Bangladesh

February 20, 1995

Mr. Richard C. Thabet
Regional Inspector General/Audit
Singapore

'D Letter No. 0146

Re: Audit of USAID/Bangladesh's Management of Project-Funded Commodities

Dear Dick:

You have asked for a Representation Letter in connection with your audit of USAID/Bangladesh's Management of Project-Funded Commodities. This audit covered all active projects in USAID/Bangladesh's portfolio as of December 31, 1993. I did not arrive at post as Mission Director until September 19, 1993. The audit intended to answer the following audit objectives:

(1) Did USAID-financed commodities arrive on time to meet project procurement plans and implementation schedules?

(2) Were the commodity procurements made in accordance with U.S. Government and USAID source, origin and eligibility requirements, unless waived for good reason?

(3) Did USAID/Bangladesh follow USAID policies and procedures to ensure that USAID-financed commodities are being used as intended?

For activities under audit during the audit period, USAID/Bangladesh was responsible for the management of project-funded commodities, for the internal control system, for compliance with applicable U.S. laws, regulations, Project Agreements and Project Implementation Letters, and for the fairness and accuracy of the accounting and management information.

I asked the following members of my staff to make available to you all records in our possession, relating to project commodities funded by USAID/Bangladesh during the audit period for the purpose of this audit: Controller, Chiefs of Office of Population and Health (OPH), Office of Program (PRO), Office of Economics and Enterprise (OEE), Office of Food and Agriculture (OFA) and Office of Project Development and Engineering and Technology.

Based on written assurance from the Controller and Chiefs of OPH, PRO, OFA, PDE of concurrence with the representations made in this letter and in reliance on your office which has not informed me of any difficulty in obtaining records or information, or of any difficulty in obtaining the full cooperation of the various offices and staff involved, I confirm, as a layman and not as a lawyer, the following representations with respect to the subject matter of the audit and the audit objectives:

(1) To the best of my knowledge and belief, USAID/Bangladesh has made available to your staff all the financial and management information it maintains related to the Mission's management of project-funded commodities.

(2) To the best of my knowledge and belief, there are no instances which we consider material where financial or management information on matters directly relating to this audit has not been properly and accurately recorded and reported, other than the findings in the draft report.

(3) To the best of my knowledge and belief, there have been no known material irregularities relating to this audit and which we consider substantive involving Mission management or employees who have roles in the internal control structure; nor have there been any written communications from any other organization not made available to your staff concerning noncompliance with or deficiencies in the Mission's management of project-funded commodities.

(4) To the best of my knowledge and belief, USAID/Bangladesh has reported to the auditors all known instances which, in the Mission's judgement, evidence material noncompliance with A.I.D. policies and procedures or violations of applicable U.S. laws and regulations for the Mission's management of project-funded commodities.

(5) After review of your draft audit report and further consultations with my staff, to the best of my knowledge and belief, there are no other facts as of the date of this letter (other than those expressed in our Management Comments to the draft report) which I believe would materially alter the conclusions reached in the draft report.

Yours sincerely,

Richard M. Brown
Director, USAID/Bangladesh

36