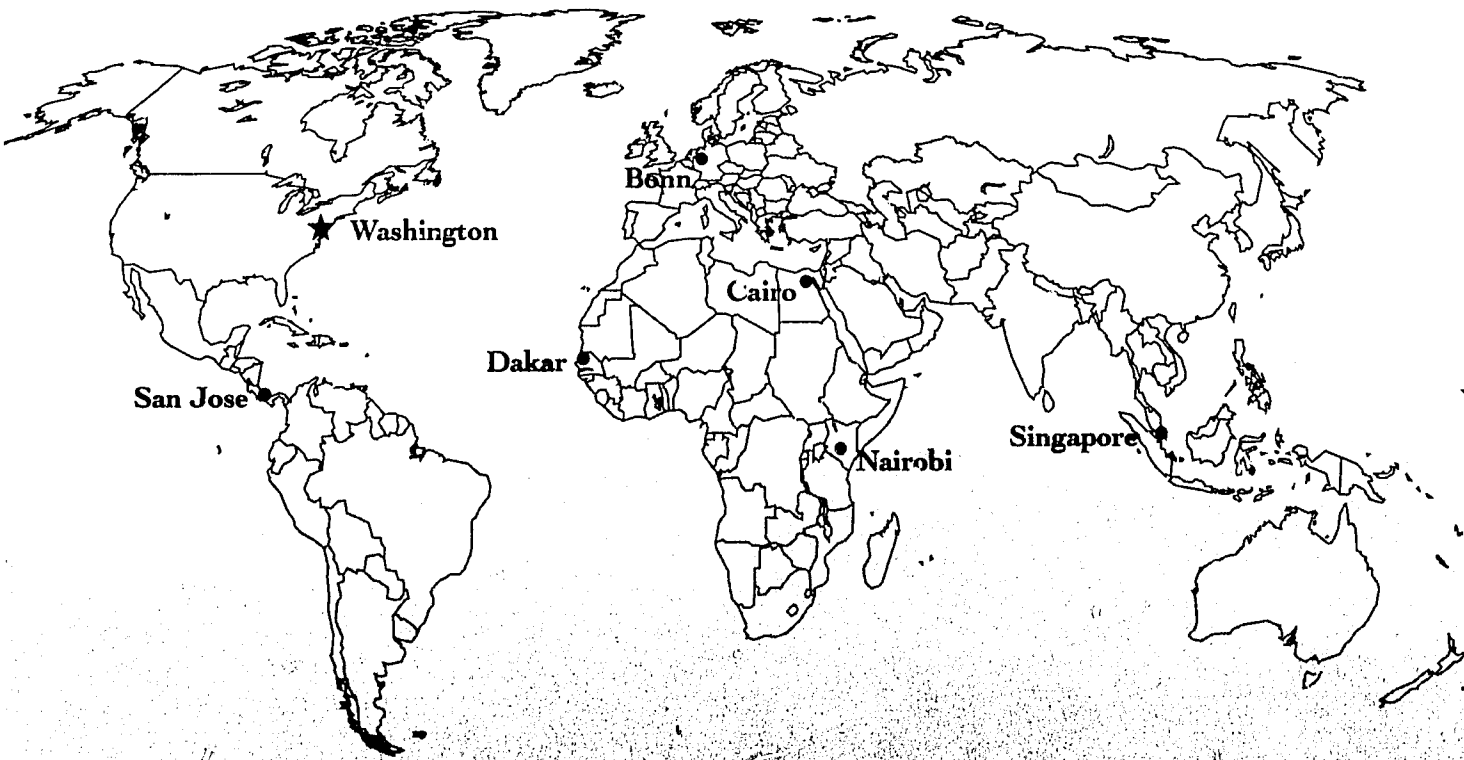
PD-ABM-338

Regional Inspector General for Audit
Singapore

Audit of USAID/Bangladesh's Grant to the Expanded Program on Immunization Managed by Bangladesh's Ministry of Health and Family Planning Under Project No. 388-0071

Audit Report No. 5-388-96-005-N
December 12, 1995



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

December 12, 1995

MEMORANDUM

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

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

SUBJECT: Audit of USAID/Bangladesh's Grant to the Expanded Program on Immunization (EPI) Managed by Bangladesh's Ministry of Health and Family Planning Under Project No. 388-0071
Audit Report No. 5-388-96-005-N

Enclosed are five copies of the subject audit report prepared by the accounting firm Qasem & Co., Dhaka, for your action. The audit covered the period from July 1, 1992 through June 30, 1993. During this period, the Health Wing of Bangladesh's Ministry of Health and Family Planning reported that it received a total of $303,081 and spent $221,337 under the grant agreement with USAID/Bangladesh.

The audit objectives were: (1) to determine whether EPI's Fund Accountability Statement prepared under Project Implementation Letter No.25 of USAID/Bangladesh Project No. 388-0071 presents fairly, in all material respects the costs incurred for the period from July 1, 1992 to June 30, 1993; (2) to report on the grantee's system of internal controls; (3) to report on the grantee's compliance with applicable laws, regulations, terms of the agreement, and binding policies and procedures.

The auditors concluded that except for questioned costs amounting to $50,142 (Takas 1,962,498) the Fund Accountability Statement presents fairly, in all material respects, the receipts and payments of the Expanded Program on Immunization in Bangladesh for the abovementioned period.

We are making one recommendation to be included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1 : We recommend that USAID/Bangladesh resolve the questioned costs of $50,142 ($45,489 unsupported and $4,653 ineligible) and recover any unallowable amount due.

We appreciate the courtesies and cooperation USAID/Bangladesh and Bangladesh's Ministry of Health and Family Planning 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 recommendation.

Attachment: a/s

b

FINANCIAL AUDIT OF USAID/BANGLADESH'S GRANT TO EPI (EXPANDED PROGRAM ON IMMUNIZATION) UNDER THE HEALTH WING OF THE MINISTRY OF HEALTH AND FAMILY PLANNING (MOHFP) UNDER PROJECT IMPLEMENTATION LETTER (PIL) NO. 25 OF THE USAID PROJECT NO. 388-0071 FOR THE PERIOD FROM JULY 1, 1992 TO JUNE 30, 1993

****

Performed and Prepared

by

A. Qasem & Co.
Bangladesh

November 26, 1995

C

FINANCIAL AUDIT OF USAID/BANGLADESH'S GRANT TO EPI (EXPANDED PROGRAM ON IMMUNIZATION) UNDER THE HEALTH WING OF THE MINISTRY OF HEALTH AND FAMILY PLANNING (MOHFP) UNDER PROJECT IMPLEMENTATION LETTER (PIL) NO. 25 OF THE USAID PROJECT NO. 388-0071 FOR THE PERIOD FROM JULY 1, 1992 TO JUNE 30, 1993

INDEPENDENT AUDITORS' REPORT

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November 26, 1995

Dear Mr. Thabet

FINANCIAL AUDIT OF USAID/BANGLADESH'S GRANT TO EPI (EXPANDED PROGRAM ON IMMUNIZATION) UNDER THE HEALTH WING OF THE MINISTRY OF HEALTH AND FAMILY PLANNING (MOHFP) UNDER PROJECT IMPLEMENTATION LETTER (PIL) NO. 25 OF THE USAID PROJECT NO. 388-0071 FOR THE PERIOD FROM JULY 1, 1992 TO JUNE 30, 1993

This report presents the results of our financial audit of EPI (Expanded Program on Immunization) under the Health Wing of the Ministry of Health and Family Planning (MOHFP) under Project Implementation Letter (PIL) no. 25 under USAID Project No. 388-0071 for the period from July 1, 1992 through June 30, 1993.

Background

Bangladesh, being one of the world's most densely populated country, launched the Expanded Program on Immunization (EPI) in 1979. By December, 1985, an estimated 22 percent of the target population had access to vaccination services. However, the ongoing activities did not address the needs of the country's urban areas.

USAID/Bangladesh, at the request of the Government of Bangladesh (GOB), joined the National EPI program by providing financial and technical assistance to EPI to cover the selected urban municipal areas and developed the EPI sub-project under the USAID Population and Health Services Project No. 388-0071.

By Project Implementation Letter (PIL) no. 25 dated September 27, 1989, effective from October 01, 1989 through September 30, 1993 under the USAID Project No. 388-0071, USAID/B agreed to support the national EPI program. During the period covered by the audit, EPI received and expended Tk. 8,662,702.

Audit Objectives and Scope of Work

We have conducted a financial audit of EPI (Expanded Program on Immunization) under the Health Wing of the Ministry of Health and Family Planning (MOHFP) under Project Implementation Letter (PIL) no. 25 under USAID Project No. 388-0071 for the period from July 01, 1992 through June 30, 1993. Our audit encompassed the examination of vouchers and other supporting documentation both at the Head Office and Field Offices level, as well as field visits to the four Municipal Corporations, e.g Dhaka, Chittagong, Khulna and Rajshahi.

The Fund Accountability Statement comprises the Receipts and Payments Statement for the period July 1, 1992 to June 30, 1993 and the notes therein. The results of our work are reflected in the accompanying Independent Auditors' Reports on the:

a) Fund Accountability Statement;

b) Internal Controls; and

c) Compliance with Agreement Terms, Applicable Laws and Regulations

The objectives of our work were to:

a) Determine whether EPI's Fund Accountability Statement presents fairly the receipts and payments and ending balances covering the audit period in accordance with the terms of the related Project Implementation Letter (PIL) issued by USAID/B;

b) Determine whether EPI's internal controls are adequate to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with the Agreement and PIL, and authorizations are properly recorded to permit preparation of vouchers or invoices in accordance with the Contract; and

c) Report on EPI's compliance with applicable laws, regulations, agreement terms, binding policies and procedures.

Our audit was conducted in accordance with generally accepted United States Government Auditing Standards and, accordingly, included such tests as we considered appropriate in order to satisfy our objectives.

Follow up of prior audit recommendations

This was the first audit of its kind performed for this Grant.

Comments on Findings and Recommendations

The comments of the management on our findings and recommendations have been included in the appropriate sections of the report.

Acknowledgments

We would like to take this opportunity to express our gratitude for the assistance given to us by the RIG/A/S office, USAID/B and the management and staff of EPI during the course of our audit.

Yours truly

(A. Qasem & Co.)
Chartered Accountants

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FINANCIAL AUDIT OF USAID/BANGLADESH'S GRANT TO EPI (EXPANDED PROGRAM ON IMMUNIZATION) UNDER THE HEALTH WING OF THE MINISTRY OF HEALTH AND FAMILY PLANNING (MOHFP) UNDER PROJECT IMPLEMENTATION LETTER (PIL) NO. 25 OF THE USAID PROJECT NO. 388-0071 FOR THE PERIOD FROM JULY 1, 1992 TO JUNE 30, 1993

INDEPENDENT AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT

We have audited the Fund Accountability Statement of EPI (Expanded Program on Immunization) under the Health Wing of the Ministry of Health and Family Planning (MOHFP) under Project Implementation Letter (PIL) no. 25 under USAID Project No. 388-0071 for the period from July 1, 1992 through June 30, 1993.

This Statement, comprising the Receipts and Payments Statement and the notes thereon, and as set out on pages 6 to 8 is the responsibility of EPI's management. Our responsibility is to express an opinion on this Statement based on our audit.

We conducted our audit in accordance with generally accepted United States Government Auditing Standards issued by the Comptroller General of the United states. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made, by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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As described in note 1(b) to the Statement, the Statement is prepared on a cash receipts and disbursement basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Further as stated in note 2 to the Statement, the Fund Accountability Statement presents only the transactions of EPI's operation as they pertain to USAID Project No. 388-0071 , and is not intended to present fairly the receipts and payments of EPI as a whole.

The results of our audit disclosed that expenditure totalling Tk. 1,962,498 ($ 50,142) has been questioned on the grounds that it may not be reasonable, allocable or allowable under the Agreement (refer Appendix A).

Except for the matter referred to in the preceding paragraph above, in our opinion, the Statement referred to above presents fairly, in all material respects, the receipts and payments of EPI for the period July 1, 1992 to June 30, 1993 in conformity with the basis of accounting described in note 1(b) to the Statement.

This report is intended solely for the use of the Agency for International Development and EPI and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

(A. Qasem & Co.)
Chartered Accountants

Dated: November 26, 1995

FINANCIAL AUDIT OF USAID/BANGLADESH'S GRANT TO EPI (EXPANDED PROGRAM ON IMMUNIZATION) UNDER THE HEALTH WING OF THE MINISTRY OF HEALTH AND FAMILY PLANNING (MOHFP) UNDER PROJECT IMPLEMENTATION LETTER (PIL) NO. 25 OF THE USAID PROJECT NO. 388-0071 FOR THE PERIOD FROM JULY 1, 1992 TO JUNE 30, 1993

FUND ACCOUNTABILITY STATEMENT

	Budget	Actual	Questioned Costs			Reference
	For the period		Ineligible	Unsupported	Total	(Findings & Notes)
	Taka	Taka	Taka	Taka	Taka	
Opening Balance as at July 01, 1992:						
Cash at Bank	-	2,079,588	-	-	-	
Advances	-	3,340,845	-	-	-	
Revenue:						
Received from USAID/B during the period	-	11,866,405	-	-	-	
	-	17,286,838	-	-	-	
Costs Incurred:						
Planning/Monitoring/Evaluation	1,609,935	697,408	295,940	-	295,940	3
Other Direct Costs	7,920,880	7,686,729	182,126	1,484,432	1,666,558	4 & 5
Technical Assistance	1,062,557	278,565	-	-	-	
Total Costs Incurred	10,593,372	8,662,702	478,066	1,484,432	1,962,498	
Closing Balance as at June 30, 1993:						
Cash at Bank		3,942,570				
Advances		4,681,566				
		8,624,136				

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FUND ACCOUNTABILITY STATEMENT

	Budget For the period US $	Actual For the period US $	Questioned Costs Ineligible US $	Questioned Costs Unsupported US $	Questioned Costs Total US $	Reference (Findings & Notes)
Opening Balance as at July 01, 1992:						
Cash at Bank	-	53,448	-	-	-	
Advances	-	85,361	-	-	-	
Revenue:						
Received from USAID/B during the period	-	303,081	-	-	-	
	-	441,890	-	-	-	
Costs Incurred:						
Planning/Monitoring/Evaluation	41,135	17,820	7,561	-	7,561	3
Other Direct Costs	202,383	196,400	4,653	37,928	42,581	4 & 5
Technical Assistance	27,149	7,117	-	-	-	
Total Costs Incurred	270,667	221,337	12,214	37,928	50,142	
Closing Balance as at June 30, 1993:		220,553				

EXPANDED PROGRAM ON IMMUNIZATION (EPI)

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM JULY 1, 1992 TO JUNE 30, 1993

1. **Significant Accounting Policies**

a) The Fund Accountability Statement, expressed in Bangladesh Taka, is prepared in accordance with the historical cost convention. Bangladesh Taka amounts have been translated to their US $ equivalent at the following rates:

Opening Balances	Ruling rate as at July 1, 1992
Receipts	Ruling rates as at transaction dates
Costs	Average rate $ 1.00 = Tk. 39.138

b) Revenue and Costs relate to amounts received and paid respectively in cash.

2. **Component unit of EPI**

The Fund Accountability Statement presents only the transactions and balances of the fund under the Agreement No. 388-0071 as funded by USAID/B and are not intended to represent the revenue and costs and financial position of EPI as a whole.

3. No reimbursement was claimed from USAID/B for depreciation and provision for bad debts.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS

We have audited the Fund Accountability Statement of EPI (Expanded Program on Immunization) under the Health Wing of the Ministry of Health and Family Planning (MOHFP) under Project Implementation Letter (PIL) no. 25 under USAID Project No. 388-0071 for the period from July 1, 1992 through June 30, 1993, and have issued our report thereon dated .

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. 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.

In planning and performing our audit of EPI, we considered its internal control structure 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 EPI 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 assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the Fund Accountability Statement in conformity with the basis of accounting described in Note 1 to the Fund Accountability Statement. 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 in the following categories:

Accounting Controls:

1. Cash Receipts
2. Cash Disbursement
3. Payroll

Administrative Controls:

1. Cost allocation and allowability
2. Reporting

For all of the internal control structure 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 judgment, 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 are described on pages 14 to 16.

A material weakness is a reportable condition in which the design or operation of one or more of the 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 may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration 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 all of the reportable conditions described above to be material weaknesses.

This report is intended solely for the use of the Agency for International Development and EPI and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

(A. Qasem & Co.)
Chartered Accountants

Dated: November 26, 1995

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

We have audited the Fund Accountability Statement of EPI (Expanded Program on Immunization) under the Health Wing of the Ministry of Health and Family Planning (MOHFP) under Project Implementation Letter (PIL) no. 25 under USAID Project No. 388-0071 for the period from July 1, 1992 through June 30, 1993, and have issued our report thereon dated November 26, 1995.

This Statement is the responsibility of EPI's management. Our responsibility is to express an opinion on this Statement based on our audit. We have issued our audit report thereof dated November 26, 1995.

We conducted our audit in accordance with generally accepted United States Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to EPI is the responsibility of EPI's management. As part of our audit, we performed tests of EPI's compliance with certain of those provisions. However, it should be noted that, whilst we performed those tests of compliance as part of obtaining reasonable assurance whether the financial statements were free of material misstatements, our objective was not to provide an overall opinion on compliance with those provisions.

Material instances of non-compliances are failures to follow requirements or violations of agreement terms, laws, regulations, contracts, grants or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the Fund Accountability Statement. The results of our tests of compliance disclosed material instances of non-compliance (findings 3 to 5) as set out in pages 17 to 23. These instances of non-compliance resulted in questioned costs of Tk. 1,962,498 (US $ 50,142).

We considered these material instances of non-compliance in forming our opinion on whether EPI's Fund Accountability Statement for the period from July 1, 1992 to June 30, 1993 are presented fairly, in all material respects, in conformity with the basis of accounting described in note 1(b) to the Statement, and this report does not affect our report dated November 26, 1995 on the Statement.

Our testing of transactions, records disclosed other instances of non-compliance with those laws and regulations. All instances of non-compliance that we found are identified in the accompanying schedule of findings and questioned costs.

Except as described above, the results of our tests of compliance indicate that with respect to the items tested, EPI has complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that EPI had not complied, in all material respects, with those provisions.

This report is intended solely for the use of the Agency for International Development and EPI and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

(A. Qasem & Co.)
Chartered Accountants

Dated: November 26, 1995

FINDINGS ON INTERNAL CONTROL

FINDING 1

INADEQUACIES IN THE PROPERTY MANAGEMENT SYSTEM

Condition

In course of our audit, we noted the following inadequacies in EPI's Property Management System:

a) There is no written procedure for conducting regular periodic physical inventories (USAID regulations require biannual inventories).

b) Due to the absence of regular physical inventories, the fixed assets register cannot be properly updated. While doing a physical inventory ourselves, we noted that certain items, though in unusable condition, are still marked "good" on the fixed assets register.

Criteria

A sound internal control system requires proper control over fixed assets, e.g:

- Regular periodic inventory and reconciliation with books
- Regular updating of property records as regards to quantity and condition of property items
- Monitoring system to ensure that properties are used for the purpose for which they were intended

Cause

EPI management appears to have been unaware of the implications and importance of such measures.

Effect

Such inadequacies weaken EPI's control over the property items.

Recommendation

EPI should formulate a system to ensure proper control over their property items according to sound management practice. USAID Handbook 1B, Chapter 24 on Post Procurement Policies provide guidance in this matter.

Management Comments

1(a) This was settled at exit meeting on October 22, 1995.

FINDINGS ON INTERNAL CONTROL

FINDING 2

THE VOUCHERS RECEIVED FROM FIELD OFFICES ARE NOT RECORDED/ADJUSTED IN THE EPI BOOKS ON A TIMELY BASIS

Condition

Urban/EPI office sends monthly advances to various Municipal Corporations/ Urban Operation Officers (UOO) etc. These offices/persons send back the vouchers after spending the advances. These vouchers are then supposed to be adjusted in the books of EPI at Dhaka Office within a reasonable time. We however noted in many cases that there has been significant delay in the adjustment of vouchers from field offices. Some instances are given below:

Journal Voucher #	Date of Advance mm-dd-yy	Date of Adjustment mm-dd-yy	Delay in months
27	11.12.91	07.31.92	8
41	12.01.92	05.31.93	6
42	11.03.92	05.31.93	6
43	06.25.92	05.31.93	11
44	06.25.92	05.31.93	11

Criteria

PIL 25, Attachment 2, paragraph V on **Financial Management at the Field Level** states that:

"By 7th day of each month, each municipality that has received funds will submit to the EPI Head Office Project Director account statements in accordance with the formats developed to summarize and detail all expenditures."

Cause

The cause for this appears to be that the field offices do not send the vouchers on time.

Effect

Such delay affects the timeliness, accuracy and usefulness of the financial reports.

Recommendation

EPI should enforce necessary measures so as to adjust expenses on a timely basis.

Management Comments

Several meetings were held by EPI with the representatives from OPH USAID/B and BASICS/B in this regard. Moreover, EPI/HQ has given reminder letter to concerned persons from time to time so that voucher can be backed to EPI/HQ in time.

FINDINGS ON NON-COMPLIANCE

FINDING 3

PROCUREMENT OF BICYCLES FROM INELIGIBLE SOURCE

Condition

EPI procured bicycles of Chinese origin worth Tk. 295,940 (eqv. $ 7,561) for vaccinators. China, being a non-free world country, is outside the authorized geographic code. The details of the purchase are as follows:

JV #	Date mm-dd-yy	Units	Total Cost (Tk)
52	09.30.92	4	16,000
60	01.31.93	6	23,940
56	01.31.93	3	12,000
24	03.31.93	5	20,000
32	05.31.93	3	15,000
33	05.31.93	46	189,000
38	06.30.93	1	4,000
33	06.30.93	4	16,000
		--	-------
Total		72	295,940
		==	=======

Criteria

AID Handbook 1B, page 4-4, paragraph 4B.1.b states that:

"AID will not authorize payment to a supplier or effect payment to a borrower/grantee under commodity import programs until it has approved the commodities the supplier is furnishing as being eligible and suitable for financing.....Eligibility and suitability of commodities are defined as including the following elements:.....The source of the commodity satisfies the authorized source requirements."

Cause

The EPI management appears to have been unaware of the implications of the regulation.

Effect

Such non-compliance results in questioned costs amounting to Tk. 295,940 ($ 7,561), which is potentially refundable to USAID.

Recommendation

EPI should resolve this matter with USAID/B.

Management Comments

Practically all the bicycles are being assembled in Bangladesh. As per AID regulations for source and origin requirements, bicycles and any other materials can be procured locally without formal approval from AID if the per order cost excluding transportation expenses does not exceed $ 5,000.00. We are enclosing a letter from USAID in this connection.

Auditors' Comments

The letter referred to above was dated October 10, 1994, i.e it was after the audit period, and it was related to PIL-62, not PIL-25 that was being audited.

FINDINGS ON NON-COMPLIANCE

FINDING 4

FACILITY UPGRADING WORK UNDERTAKEN WITHOUT FINAL APPROVAL FROM USAID

Condition

During the audit period, the following renovation work was undertaken:

	Taka
EPI Conference Room decoration	1,233,982
EPI Room at Dhaka Medical College Hospital	250,450
	1,484,432
Non-tendered items for EPI Conference Room	109,838
Total Taka	1,594,270

While reviewing the documents, we noted that the EPI PIL-25 funded activity proposal cover sheet, dated nil September, 1991, expressly stated that: "Renovations can begin after submission bids and final USAID approval. This is anticipated to be by November 1st."

No such final approval, or any waiver in lieu thereof, was, however, available on file. Besides, when our team went for a physical verification at the Dhaka Medical College Hospital (DMCH) with an authorization letter from EPI management, the Hospital authority did not permit access to the EPI room there.

Due to the non-availability of the copy of the final approval from USAID, as well as the fact that there is no recognition of USAID contribution for the EPI room at the DMCH, we have questioned the cost of construction amounting to Tk. 1,484,432 (eqv. $ 37,928). We have not questioned the cost of non-tendered items, for which separate approval was obtained.

Criteria

Project Grant Standard Provisions Annex 2, Section C.3.c states:

"Contracts and contractors financed under the Grant for engineering and other professional services, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by AID in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by AID prior to execution;"

Cause

EPI management appears to have presumed that the approval of the USAID Project Officer on the PIL-25 Activity Proposal Cover Sheet would suffice as a final approval.

Effect

This results in a non-compliance with the USAID Standard Provisions.

Recommendation

EPI should resolve the matter with USAID/B.

Management Comments

Before final payment to contractors, an approval was taken from USAID/B (Ref. AID letter no. 1600 dt. December 2, 1992). This letter is reference to EPI letter given to USAID/B (see below):

(a) Memo No 1X/EPI/2A-454/92/64321 dt. November, 1992 regarding:

1. *Request for prior approval to execute work*
2. *CCC Architect's comments & opinion*
3. *Cost analysis of Non-tendered items*
4. *EPI engineer's comments*

(b) Memo No 1X/EPI/2A-454/92/58696 dt. 16.8.92 regarding projection of final bill of Tk. 1,595,070.

FINDINGS ON NON-COMPLIANCE

FINDING 5

COSTS INCURRED WHICH ARE INELIGIBLE AS PER THE TERMS OF THE AGREEMENT AS WELL AS USAID REGULATIONS:

Condition

In course of our audit, we noted certain costs which were ineligible either as per the terms of the Agreement, or as per applicable USAID regulations expressly approved by USAID. We have questioned such costs as "Ineligible". A summary follows:

Budget Line Item	Particulars	Taka
P/M/E:		
Monitoring & Eval.	Entertainment on account of Coverage Evaluation Survey	39,698
Other Direct Costs:		
Social Mobilization	Entertainment	142,428
	Total (eqv. $ 4,653)	182,126

Criteria

OMB Circular A-122, Cost Principles, Attch. B, Paragraph 12 on Entertainment, which is generally applied to USAID funded projects in absence of any other similar criteria, renders the costs associated with providing meals, amusements, social activities and ceremonials as unallowable.

Cause

The management of EPI appear to have overlooked the implications of this regulation.

Effect

This has resulted in questioned costs amounting to Tk. 182,126 (eqv. $ 4,653), which is potentially refundable to USAID.

Recommendation

EPI should resolve the matter with USAID/B.

Management Comments

Regarding Tk. 142,427.50, all the vouchers are supported by substantial documentation. But the auditors pointed out that there are no detailed budget exist with the vouchers. In this connection we would like to explain ourselves that , as NIW is a big and an special activity, a budget was prepared at EPI HQ, on the basis of annual workplan duly approved by EPI, USAID, UNICEF, WHO etc to ensure mobilisation activities like meetings, conference, rallies, orientation, NIW campaign etc. EPI HQ then advanced money to EPI HQ's concerned sections, 4 city Corporations, 88 Nos Municipalities, Urban Operations Officer (UOOs) and other concerned persons on the basis of the budget.

As the NIW is a mobilisation programme includes different activities mentioned above it is practically not possible for EPI to make detailed budget for NIW activities performed in different City Corporations/Municipalities.

Regarding question costs of Tk. 39,698 reimbursed for International Review, provision was made for DA/Working lunch/Working tea in the budget. The participants were given only working lunch instead of DA.

SUMMARY OF QUESTIONED COSTS

APPENDIX A

Finding	Basis of questioning	Amt (Tk)	Eqv. $
3	**Eligibility:**		
	Not eligible because of having been purchased from a non-free world country	295,940	7,561
4	**Allowability:**		
	Not allowable except with prior approval from USAID	1,484,432	37,928
5	**Eligibility:**		
	Not eligible as per USAID regulations	182,126	4,653
	Total	1,962,498	50,142

A budget line-itemwise break-up of the questioned costs, all of which are on account of Non-Compliance, (in Tk.) is as follows:

Finding #	PME (Tk.)	ODC (Tk.)	Total (Tk.)
3		295,940	295,940
4		1,484,432	1,484,432
5	39,698	142,428	182,126
Total	39,698	1,922,800	1,962,498

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