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AUDIT REPORT

ON

CHOLERA RESEARCH LABORATORY

PROJECT NO. 298-11-510-020

Audit Report Number 5-388-77-7

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Area Auditor General Near East
Agency for International Development

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ON
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INTRODUCTION

USAID/Bangladesh entered into a Project Agreement in May 1974 with the Government of the People's Republic of Bangladesh (BDG), Ministry of Health. Under the project the USAID agreed to provide funding for the operation of the Cholera Research Laboratory (CRL). Through September 30, 1976, USAID/Bangladesh has provided \$4.1 million and the BDG Taka 1.5 million (\$243,000). During this period, CRL also received cash and in kind support from the United Kingdom, Australia, and Canada.

The funds provided under the project agreements support CRL's development and demonstration of improved techniques for the treatment, prevention and control of cholera; field testing of cholera vaccines and cholera toxoids; and the development of research programs to study diarrheal diseases in general and other health problems of the area. In addition to the activities funded under the project agreements, CRL has several contracts and agreements with various organizations for special studies and/or activities.

The purpose of this audit was to review the propriety of the expenditures made and to verify that the project was effected in accordance with the provisions of the agreements and applicable AID regulations.

SUMMARY

The most significant findings developed during the audit, and presented in detail in the next section, are digested below:

- Reimbursement and payment of \$16,310 on certain vouchers were made by USAID/Bangladesh without supporting documentation and not in accordance with contract provisions. (See pp. 3-4.)

- AID funds have been used to finance studies and services which were to be financed by other organizations. (See pp. 4-5.)

- Taxes for local purchases of fuel for almost Tk 91,000 had been charged against AID funds instead of against the BDG contribution. (See pp. 5-6.)

- Clarification of the Directing Council's Minutes is needed to clearly reflect that all local employees are to receive a Dearness Allowance. (See pp. 6-7.)

The report contains five recommendations which are shown in Exhibit B.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. REIMBURSEMENT AND PAYMENT OF VOUCHERS

Reimbursement and payment of \$16,310 on certain vouchers have been made by USAID/Bangladesh without supporting documentation and not in accordance with contract provisions. Contract procedures were not followed by CRL and sufficient reviews of vouchers, supporting documentation, and contract provisions were apparently not made by USAID/Bangladesh personnel. Thus, reimbursements and payments have been made which were not supported or authorized.

In June 1975, AID and CRL entered into a contract (AID/Pha-C-1405) to finance certain costs of a program to distribute family planning information and services to Bangladeshis in the Matlab Bazar area. This contract provides that all international travel must be approved in advance by the contracting officer and that no individual line item in the contract budget may be exceeded by more than 15 percent.

In June and July 1976, CRL requested and was reimbursed \$7,700 for the cost of three international trips which had not received prior approval. Through August 1976, CRL requested and was reimbursed \$14,635 for the equipment and materials line item under the contract. The maximum allowed for this line item was \$12,535 or \$2,100 less than the amount reimbursed. By adding the provisional overhead rate of 35 percent to these unauthorized reimbursements, USAID/Bangladesh has reimbursed CRL \$13,230 more than was authorized under the terms of the contract.

In July 1975, CRL submitted a voucher to USAID/Bangladesh for \$3,080. USAID/Bangladesh paid the amount to CRL on July 15, 1975. The amount of this voucher was determined by subtracting the amounts previously reimbursed for expenditures made from the total amount of funds provided under the FY 1974 project agreement. The voucher was not supported by any list of expenditures and was not considered as an additional advance of funds to CRL. Thus, CRL has received \$3,080 for which it has not submitted a list of allowable expenditures nor is the amount listed as an advance for which CRL must account to USAID/Bangladesh for its use.

Recommendation No. 1

We recommend that USAID/Bangladesh recover from or offset against future reimbursement to CRL (a) the unauthorized payments under contract AID/Pha-C-1105 and (b) the unsupported payments under the FY 1974 project agreement.

B. COSTS FOR STUDIES AND SERVICES

AID funds have been used to finance studies and services which were to be financed by other organizations. Although agreements existed regarding the costs to be financed by the other organizations, CRL has not collected the full amount due. Since all agreed to funds have not been provided by the other organizations, most of the costs incurred to perform the studies and services have been charged against AID provided funds.

CRL entered into an agreement with a United Nations organization in September 1974 for a period of 12 months with an option to renew the agreement for an additional 12 months if agreeable to both parties. The agreement was for an Evaluation of a Rural Water Program and its Effects on the Development of Children in Bangladesh. The United Nations organization agreed to make a cash grant of \$18,000 per annum to support the Evaluation. CRL was to provide semi-annual progress reports on the evaluation and an annual accounting of funds expended.

We were advised by CRL officials that the agreement with the United Nations organization was not renewed in writing for the additional 12 months, but participation in the form of meetings and conversations has continued up to the present time. CRL officials also advised us that written progress reports were not furnished and that a final report on the project has not been furnished. CRL officials stated that the progress on the project has been reported verbally to the United Nations organization. CRL submitted a list of expenditures for the Evaluation up to June 30, 1975, but had not submitted a report of expenditures subsequent to that date.

Between September 1974 and September 1976, CRL spent about \$64,400 on the Evaluation. The United Nations organization has contributed only \$9,000 to finance the costs of the Evaluation. Thus,

a substantial contribution is still due from the United Nations organization. In the meantime, AID funds have been used to finance most of the costs of the Evaluation.

In another instance, CRL entered into an agreement with Johns Hopkins University. The agreement allows Johns Hopkins to conduct research studies at CRL. Under the terms of the agreement, Johns Hopkins was to pay CRL one-half of all direct costs of the research projects. This agreement was not workable because of a lack of funds on the part of Johns Hopkins. Thus, CRL has been paying most of the costs of these projects from AID funds. For example, during the period July 1, 1975 through September 30, 1976, the direct costs of the Johns Hopkins research projects were \$61,500 of which the University funded \$14,400.

Because of many intangible benefits, CRL is very interested in maintaining its contact with the University. A new agreement is currently being negotiated in which a new formula for the sharing of the costs of the research projects is to be included.

Recommendation No. 2

We recommend that USAID/Bangladesh have the Cholera Research Laboratory determine the amount of reimbursement due from the United Nations organization and reduce its reimbursement requests to AID by an equivalent amount.

Recommendation No. 3

We recommend that USAID/Bangladesh have the Cholera Research Laboratory finalize its agreement with Johns Hopkins University, collect all appropriate amounts from the University for past projects, and reduce its reimbursement requests to AID by an equivalent amount.

C. GASOLINE AND DIESEL OIL TAXES

During the period under review, we found that taxes for local purchases of gasoline and diesel oil in the amount of Tk 90,811.35 had been charged against AID funds instead of against the BDG contribution.

The charging of fuel taxes against AID funds was brought up in our last audit report because U. S. funds may not be used to pay these taxes. USAID/Bangladesh instructed the CRL, by letter, to charge any taxes levied for fuel to the BDG contribution and to debit the BDG contribution for fuel taxes from July 1, 1975 forward.

Our review showed that CRL has not completely complied with this instruction.

Recommendation No. 4

We recommend that USAID/Bangladesh instruct the Cholera Research Laboratory to charge the amount of Tk 90,811.35, paid for gasoline and diesel oil taxes, against the BDG contribution or reduce future reimbursements to the Cholera Research Laboratory by an equal amount.

D. DEARNESS ALLOWANCE

Directing Council Minutes of the CRL, dated August 14, 1975, authorized a Dearness Allowance equal to 30 percent of the base salaries and fringe benefits to senior officers. However, a CRL Circular, dated August 25, 1975, stated that the 30 percent Dearness Allowance would be paid to all local employees (underscoring supplied).

We have no quarrel with the institution of such an allowance since other organizations in Bangladesh have awarded similar allowances. The CRL's budget for FY 1976 made a provision for it, and the motion for its institution was passed by a majority vote of the Directing Council. However, we believe the wording used in the Minutes is unclear and ambiguous by stressing the allowance be awarded to senior officials.

In discussing this point with CRL officials, they insisted the intent was that all local employees were to receive the allowance. The confusion appears to stem from the fact that only senior officials receive fringe benefits, in addition to base salaries, and other local employees receive the allowance on base salaries.

Consequently, we believe clarification is needed and that this action should be taken by CRL's Directing Council since the motion to approve the allowance was instituted by it.

Recommendation No. 5

We recommend that USAID/Bangladesh instruct the Cholera Research Laboratory to clarify the wording used in instituting the Dearness Allowance to clearly reflect the intent that all local employees, as well as senior officials, are to be paid the 30 percent Dearness Allowance.

E. MINOR FINANCIAL MATTERS

We noted several minor financial items that should be corrected and some suggestions for improvement in internal control.

The American Express bank account did not reconcile with the financial records as of September 30, 1976. The bank account is maintained in U.S. dollars; however, the financial records were maintained in Takas. As a result, exchange rate fluctuations and use of different exchange rates on some transactions resulted in a difference of \$691.33. Also, we found that a check for \$906.54 had properly been deposited to the bank account but had not been recorded in the financial records. We suggested that CRL maintain its financial records in U.S. dollars as is done in the bank account. CRL agreed to adjust its financial records to reflect the correct bank balance.

CRL established a monthly rate of about \$300 for some 290 workers under the contract for the distribution of family planning information and services. This monthly rate was determined on the basis of amounts paid to these workers and the number of hours worked on the contract during the period September 23 through December 31, 1975. Although a period of about 3 months actual experience was used in the calculation, the experience was divided by 6 as though 6 months actual experience had been used. Therefore, the monthly rate should be about \$550 rather than the \$300 rate. Thus, between \$5,000 and \$6,000 more should be charged to the contract rather than to CRL general operations.

The per diem rate for international travel on two vouchers paid in September 1976 was computed at the wrong rate. The per diem rates of \$46 and \$35 were used on these vouchers whereas a per diem rate of \$6 for international travel should have been used. An overpayment of about \$195 resulted on these two vouchers. CRL has agreed to adjust the overpayment in subsequent reimbursement vouchers.

SCOPE

The purpose of the review was to determine the: (a) conformance with the applicable project agreements; (b) accuracy of the financial records; (c) supporting documentation for, and the propriety of, expenditures made by CRL for the period under audit; and (d) the accountability, utilization, and disposition of expendable and non-expendable supplies and equipment.

The audit included a review of CRL's operations for the period July 1, 1975 through September 30, 1976. Our last audit covered CRL's operations up to June 30, 1975. We reviewed project agreement expenditures of the equivalent of \$1.0 million. This does not include the cost of supplies and equipment included in our review but financed from other than project agreement funds.

Our review was conducted in accordance with generally accepted auditing standards. We selectively reviewed expenditures and supporting documentation, and the receipt, accountability, utilization and disposition of non-expendable supplies and equipment. The audit was performed primarily at CRL's office in Dacca; however, we also reviewed the records maintained by USAID/Bangladesh and made a visit to CRL's field station at Matlab Bazar. Discussions were held with various USAID/Bangladesh and CRL officials.

The audit did not include a detailed review of activities financed under various contracts and agreements other than the project agreements. Our review of these other activities were included only to the extent that they and/or their expenditures related to the activities and expenditures of the project agreements under review. We did not review the procurement, shipping and other activities conducted outside of Bangladesh. However, our test of expendable and non-expendable supplies and equipment was made without regard to the source of funds used to procure the items.

Our last audit of CRL operations covered the period June 30, 1974 to June 30, 1975 (Audit Report No. 8-388-76-20 dated December 23, 1975). That report contained three recommendations, all of which were closed prior to the commencement of this audit.

LIST OF EXPENDITURES
REPORTED BY THE CHOLERA RESEARCH LABORATORY
FOR THE PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

<u>SOURCE OF FUNDS</u>		<u>TYPE OF FUNDS EXPENDED</u>	<u>U. S. DOLLAR EQUIV.</u>
<u>In Cash</u>			
USAID Project Agreements (1)	Takas	14,203,526	\$1,026,735
BDG Contributions	Takas	596,326	41,126
AID funds for Contraceptive Distribution Program	Takas	985,479	67,964
National Institutes of Health	U. S. \$	548,127	548,127
Australia Grant Funds	A. \$	36,724	41,263
Canada Grant Funds	Takas	388,865	26,818
Canada Grant Funds	C. \$	12,379	12,379
UNICEF Grant Funds	Takas	407,619	28,112
Johns Hopkins University	Takas	332,930	22,961
Miscellaneous Sources	Takas	73,202	5,048
Total In Cash			<u>\$1,820,533</u>
<u>In Kind</u>			
BDG Contribution	Takas	2,500,000	172,414
United Kingdom Contribution	L	24,131	57,456
Australia Contribution	A. \$	5,900	6,630
Total In Kind			<u>\$ 236,500</u>
Total In Cash and In Kind			<u>\$2,057,033</u>

- (1) These expenditures were covered by this audit. However, all other Taka expenditures were also test checked because all Taka expenditures are initially paid from this source of funds and then transferred to the appropriate source of funds after the information is provided by computer printouts. We also made test checks of the supplies and materials purchased with other sources of funds.

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 1

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Recommendation No. 2

We recommend that USAID/Bangladesh have the Cholera Research Laboratory determine the amount of reimbursement due from the United Nations organization and reduce its reimbursement requests to AID by an equivalent amount. 5

Recommendation No. 3

We recommend that USAID/Bangladesh have the Cholera Research Laboratory finalize its agreement with Johns Hopkins University, collect all appropriate amounts from the University for past projects, and reduce its reimbursement requests to AID by an equivalent amount. 5

Recommendation No. 4

We recommend that USAID/Bangladesh instruct the Cholera Research Laboratory to charge the amount of Tk 90,811.35, paid for gasoline and diesel oil taxes, against the BDG contribution or reduce future reimbursements to the Cholera Research Laboratory by an equal amount. 6

Recommendation No. 5

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LIST OF REPORT RECIPIENTS

USAID/Bangladesh

Director 5

AID/W

Auditor General, Area Auditor General/W (AAG/W) 8

Auditor General, Office of Oversight Coordination,
Policies and Procedures Division (AG/OC/PP) 1

Auditor General, Office of Oversight Coordination,
Plans and Evaluation Division (AG/OC/PE) 1

Auditor General, Office of Operations Appraisal Staff (AG/OAS) 1

Assistant Administrator/Asia (AA/ASIA) 1

Bureau for Technical Assistance, Office of Health (AA/TA/H) 1

Office of South Asian Affairs (Bangladesh Desk) 1

Special Assistant for Program Management (PM) 1

Program Review Staff (PHA/PRS) 2

Office of Population (PHA/POP) 3

STATE

Office of Population Affairs (OES/ENP/PO) 1

OTHER

National Institutes of Health (NIAID) 1

Inspector General of Foreign Assistance (IGA/W) 1

U. S. General Accounting Office (GAO)/Washington 1

Inspections and Investigations Staff (IIS)/Karachi 1

Bangladesh Residency 2