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AUDIT REPORT

ON

KASTURBA HEALTH SOCIETY, SEVAGRAM, INDIA

GRANT AGREEMENT NO. AID-386-1743

PROJECT NO. 386-14-550-417

Audit Report Number 5-386-79-19

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AUDIT REPORT

ON

KASTURBA HEALTH SOCIETY, SEVAGRAM, INDIA

GRANT AGREEMENT NO. AID-386-1743

PROJECT NO. 386-14-550-417

INTRODUCTION

The Kasturba Health Society (KHS) was established in 1964 to operate the existing Kasturba Hospital. In 1969, KHS established the Mahatma Gandhi Institute of Medical Sciences (MGIMS) to train young doctors and nurses to serve the needy rural masses. The 75 bed Kasturba Hospital then became a part of MGIMS.

In order to be recognized as an educational institution, the Government of India required MGIMS to have the facilities of a hospital with a minimum of 500 beds. For this purpose, USAID/India provided a grant of Rs. 20 million ($2.5 million)1/ from PL 480, Section 104(f) funds. The grant funds were to be used for constructing, furnishing and equipping a new hospital and for construction of related college buildings, hostels, staff quarters and other facilities at Sevagram, Maharashtra.

The grant agreement was signed on January 27, 1971 with a terminal date for utilization of the grant funds by March 31, 1975. Due to delays in project implementation this date has been extended 10 times and is presently December 31, 1980. The Project as originally planned could not be completed because of cost increases due to inflation and general escalation of construction costs. As a result, construction of several buildings including two ward blocks, an administrative block, and two nurse hostels was not accomplished.

1/ Exchange Rate: $1 = Rs. 8.

Audited expenditures incurred under the grant since inception totalled Rs. 19,601,551 ($2,450,194). Of these, USAID/India had reimbursed Rs. 19,072,960 ($2,384,120) against claims submitted by the grantee as of the date of our audit. In addition, USAID/India has provided an advance of Rs. 686,796 ($85,849) to the grantee.

This was the fourth and final review of the grant and covered activities from October 1, 1976 to March 31, 1979 during which time KHS was reimbursed a total of Rs. 956 thousand ($ 119.6 thousand). The purpose of our review was to determine the effectiveness of grant fund utilization and to identify problem areas requiring further USAID action. The audit was made during April and May 1979 and included an examination of pertinent records and documents maintained by USAID/India and KHS. We also made field inspections at Sevagram, India and followed such other audit procedures considered necessary in the circumstances.

The draft of this report was reviewed by USAID/India officials and their comments were considered in finalizing the report.

SUMMARY

The most significant findings developed during the audit, and presented in detail in the following section of this report, are summarized below:

- Except for lengthy construction delays, we found project implementation progress to be satisfactory. Construction of the hospital buildings and related facilities was completed in 1977 and at the time of our audit, we found that the entire complex had been placed into operation except for the kitchen block which was scheduled for start-up in the near future. (See p. 4).

- Two difficult administrative problems remain to be resolved before this project can be successfully completed. During our audit we noted that extensive delays have occurred in settling and paying final construction invoices due to a number of disputed charges for extra items billed by the contractor. We also found a total of Rs. 184, 146 ($23, 018) of questionable charges to grant funds that should be adjusted against KHS's final reimbursement claim. We recommended that the Mission Director establish a definitive timeframe for finalization of the disputes and submission of final reimbursement claims. We also recommended action to ensure that unallowable charges to grant funds are offset against reimbursement claims. (See p. 6).

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. PROJECT PROGRESS

In general, and except for lengthy construction delays, we found project implementation progress to be satisfactory. Construction and equipping of the hospital complex funded under Grant No. AID-386-1743 was physically completed by April 1977. Initially, construction was planned for completion by December 1972 but the project suffered approximately a four and one-half year delay due to shortages of steel and cement, design modifications, and slow performance by the general contractor. The delay experienced has significantly contributed to cost overruns which resulted in limiting the number of planned buildings that could be constructed.

Overall, the construction program resulted in the completion of eight major buildings, several minor buildings, and related works. In addition, equipment and furniture for the hospital complex was also procured from grant funds. Details of building and equipment costs as of March 31, 1979 are shown in Exhibit A along with related completion dates.

During 1977, the buildings and works were accepted by KHS and were formally inaugurated by the President of India on April 16, 1978. At the time of our audit we found that the entire complex had been placed into operation except for the kitchen block which was expected to start operations in the near future. KHS officials advised us that the kitchen could not be used up till now because of a lack of staff. The necessary staff has now been hired and the new kitchen is expected to be placed into operation. In the meantime, food service has been provided from the old hospital's kitchen. Based on a selective review of equipment and furniture, we also found that those items procured from grant funds were being utilized for grant purposes.

The above delay in project completion resulted in an increase in total costs due to inflation and construction cost increases. Part of the cost overrun has already been met by KHS through their payment for equipment valued at Rs. 775,102 ($96,888) which had originally been charged to grant funds. In addition, KHS estimated further cost overruns of Rs. 149,126 ($18,641) would be incurred but they expect to cover those costs from other grants or through use of their own funds.

From a day-to-day operational standpoint, the recurring expenditures of the hospital and MGIMS are financed jointly by the Government of India, Maharashtra State Government and KHS in the ratio of 50:25:25 percentum, respectively. Therefore, KHS officials were confident that sufficient funds would be available to meet their ongoing operating costs. The officials, however, stated that funds were not available to construct the additional buildings required for MGIMS's effective functioning, such as an administrative block, hostels for nurses and resident doctors, laundry, library and more wards. These buildings were originally included in the project but were later shelved because of the insufficiency of funds available under the grant. KHS has since approached USAID/India several times for additional funding but has been consistently turned down. The latest request for additional financing was made in March 1979 but it had not been decided upon by USAID officials at the time of our audit.

B. PROJECT ADMINISTRATION

Two difficult administrative problems remain to be resolved before this project can be successfully completed. During our audit we noted that extensive delays have occurred in settling the National Building Construction Company (NBCC) final contractual billing due to a number of disputed charges for extra items billed by the contractor. We also found a total of Rs. 184,146 ($23,018) of questionable charges to grant funds that should be refunded or adjusted against KHS's final reimbursement claim (Details are shown in Exhibit B).

1. Settlement of Final Billing

NBCC submitted their final construction billing in October 1977 for review and certification by the project architect. KHS received the certified billing in April 1978 but had not paid the invoice up to the time of our audit because of a dispute between them and NBCC over the rates payable for extra (non-contracted) items of work. Settlement has been further complicated by NBCC's failure to provide certain documents and information requested by KHS.

NBCC's final bill included Rs. 764,159 ($59,520) for extra items. Except for the rate analyses, no supporting documents such as the suppliers' bills were furnished by NBCC for those items. As a result, KHS is questioning NBCC's computation of rates for the extra items where identical work was not shown in the Central Public Works Department (CPWD) Schedule of 1967 2/. NBCC had computed, and the architects certified the rates on the basis of market prices for the materials used. KHS, however, contends that the basic rates as shown in the CPWD Schedule should have been used wherever possible. In other cases, the rates should have been based on market prices as supported by the suppliers' bills.

2/ According to the contract, NBCC was to be paid at rates shown in the CPWD Schedule of 1967 plus 60 percent for civil work, and at the rates paid to two former contractors for electrical and plumbing work.

KHS officials independently analysed the rates for the extra items of civil work. They found that NBCC's rates were higher and that the total excess amount charged was Rs. 112,710 ($14,089). Similarly, in the case of electrical and plumbing work, KHS found that NBCC's rates for some extra items included 25 percent for overhead and profit instead of the 17 percent paid to former contractors. KHS's recalculation showed an excess charge of Rs. 14,310 ($1,789) in this area. In total, excess charges for extra items amounted to Rs. 127,020 ($15,878) which KHS proposed to deduct from the final bill. KHS has indicated that the $79,642 balance of charges for extra work are acceptable.

However, NBCC disagreed with KHS's analysis contending that the rates had been approved by the architects and, in the case of electrical and plumbing work, the former contractors' rates applied only to the tendered items and not to the extra items. The dispute has therefore continued and its early settlement appeared unlikely at the time of our audit.

We reviewed NBCC's contract to determine if it specified any basis for computing the rates for extra items. We found the following pertinent clauses

(a) Clause 11 (Deviations and Extra Items),

which provided that for any deviations or extra items, "the lumpsum assessment (of the amount) or the proposed basis of payment ..." shall be specified.

(b) Clause 49 (Valuation),

which stated that all works measured shall be valued on the basis of the rates or prices for similar work in the Bill of Quantities attached to the contract, insofar as they apply. In other cases the value shall be based upon rates or prices deduced therefrom to the extent practicable. If direct assessment or proportionment is not possible, the payment shall be made at an agreed rate to be determined on the basis of labor and materials used.

There was no evidence that the proposed basis of payment was specified for the extra items as required by Clause 11, but we could not confirm this because both the architect and NBCC had left the project site. On the other hand, Clause 49 of the contract appears to support KHS's position.

KHS had planned a meeting of its Building Committee in April 1979 to finalize NBCC's bills but again, the meeting could not be held because NBCC did not furnish the necessary documents. KHS had not fixed an alternative meeting date at the time of our audit nor could it say when the bills would be settled.

The long delay in final settlement has already unduly delayed the grant termination considering the fact that the project was physically completed in April 1977. Accordingly, we believe USAID/India officials should review the matter and take whatever steps are necessary to close the grant expeditiously.

2. Project Expenditures

Our review of project financial activities disclosed unallowable expenditures totalling Rs. 184,146 ($23,018). Exhibit B provides a summary of these disallowed expenditures and the reasons therefor.

During our discussions, KHS officials indicated that since most of the unallowable charges were for materials and services related to NBCC's activities that any necessary adjustment would be made against final construction invoices which are currently being analyzed. They also advised that other amounts, due from KHS, would be refunded as appropriate.

In view of the long delays already experienced in resolving the financial activities of this grant project, USAID/India should take the lead in establishing a definitive timeframe for finalization of grant activities. For example, at the present time the authorized grant totals $2.5 million of which $2,450,194 of the expenditures have been audited. Based

on this final review, we have determined that only $23,018 of the expenditures are questionable. Hence, net grant funds available for grant purpose total only $72,824. In connection therewith, KHS has informed us they have outstanding liabilities due NBCC and other related costs in excess of the available balance of grant funds.

Given the above circumstances, we believe USAID/India officials should require KHS to promptly resolve the final amount due NBCC or make an interim payment of accepted contract charges that would permit them to make a final reimbursement claim against the remaining grant funds.

Recommendation No. 1

The Director, USAID/India, should establish a definitive timeframe for action by KHS to (a) resolve the amount of and make payment on the final NBCC invoices or require KHS to make an interim payment of that portion of the final invoice considered acceptable and (b) if final payment exceeds the remaining net grant balance, require KHS to submit a final claim for reimbursement.

Recommendation No. 2

The Director, USAID/India should ensure that the disallowed expenditures, as specified in Exhibit B of this report, are promptly resolved and offset against KHS's final claim for reimbursement.

EXHIBIT A

SUMMARY OF CONSTRUCTION ACTIVITIES AND EXPENDITURES

Building/Cost Category	Amount Allocated in Eligible Cost List (Rs. 000)	Amount Expended thru March 31, 1979 (Rs. 000)	Date Construction of Building or Works Completed
Teaching Complex	Rs. 3,132	Rs. 3,144	7/1972
Hostel (4 Blocks)	1,706	1,704	7/1972
Hostel (4 Blocks)	1,456	1,459	9/1973
Maternity Block, Lecture Theatre, Compound Wall	1,446	1,462	9/1973
Ward Block (4 Blocks)	1,418	1,370	1/1977
OPD and Emergency Block	2,000	1,984	4/1977
X-Ray and Operation Theatre	1,437	1,333	4/1977
Residential Quarters	737	735	9/1973
External Electrification and Water Supply	1,821	1,747	10/1977
External Sewerage and Oxidation Pond	552	482	4/1977
Kitchen Block	222	209	4/1977
Central Sterilization Room (Supply)	210	160	12/1976
Other Facilities	204	169	4/1977
Equipment, Furniture and Air Conditioning	2,050	2,050	
Architects' Fees, Engineering and Administration	847	852	
Contingencies	762	742	
TOTAL	Rs. 20,000	Rs. 19,602	
	$ 2.5 m	$ 2.45 m	

Equivalent Dollars ($1 = Rs. 8).

SUMMARY OF UNALLOWABLE GRANT CHARGES
GRANT AGREEMENT NO. AID-386-1743

		Amount Rs.
1.	The contractor (NBCC) was issued a total of 155,559 bags of cement for the project work. Of these, NBCC used only 151,554 bags according to KHS's records. Hence, the cost of the unused 4005 bags should be claimed from NBCC and refunded to the grant.	79,579*
2.	Represents cost of unconsumed barbed wire remaining with NBCC per the contractor's final bill as certified by the architect.	3,509*
3.	Represents cost of the minimum number of empty cement bags remaining to be returned by NBCC to KHS per contract terms. The contract stipulates that NBCC should return at least 90% of the empty cement bags in good and sound condition, failing which a cost of Re. 1/- per bag will be charged. NBCC used 151,554 bags of cement against which it should have returned a minimum of 136,399 empty bags (90%). NBCC actually returned only 111,121 empty bags or 25,278 less than required. KHS should recover Re. 1/- per bag and restore that amount to the grant.	25,278
4.	Represents the difference in steel consumption which was found in our last audit but which has remained unreconciled or unadjusted so far. Against the issues of 735 tons of torque steel and 625 tons of mild steel shown in KHS's stock records, NBCC showed a consumption of 882 tons and 492 tons respectively. Overall, the consumption of steel as shown in NBCC's bills certified by the architects was 13.6 tons more than the issued by KHS. This excess consumption was difficult to comprehend since KHS was the only source of supply to NBCC. Further, some steel is normally wasted during consumption, for which purpose the contract has	

	Amount Rs.
specified allowable wastages of upto 2.5 percent. This excess consumption has resulted in an overcharge of approximately Rs. 28,288 to the grant (13.6 tons @Rs. 2,080 per ton specified for steel reinforcement work in the contract).	
KHS stated that the difference could not be reconciled as neither NBCC or the architects provided any explanation therefor.	28,288
5. KHS procured and supplied electrical materials to the contractors. In our previous audit, we found that the grant had been overcharged for these electrical materials because KHS had added overhead charges to their purchase prices and issued them to the contractors at these higher rates. The amount of such overcharge could not be determined then because of inadequate records.	
Subsequently, KHS computed and charged the electrical materials at average rates based on their purchase prices. This showed an overcharge of Rs. 17,589 for electrical materials issued to NBCC and an undercharge of Rs. 19,723 in the case of another contractor. KHS has adjusted the undercharge but the overcharge was not adjusted as of the date of our audit.	17,589
6. Represents the amount deducted from a supplier's bill but added to the purchase value of electrical materials used in computing the average rate and charged to the grant for materials incorporated in the project. KHS explained that this ad-hoc deduction had not been finally agreed to by the supplier, hence the amount was added to the purchase value. It further stated that appropriate credit will be given to the grant if the supplier agreed to the deduction.	7,000

		Amount Rs.
7.	Represents cost of cement used for repair of overhead tank. The repair work was to be done by NBCC at its own cost.	4,805*
8.	Represents cost of cartage and handling of steel and cement which NBCC was required to pay per Clause 4 of the contract.	15,370*
9.	Represents vehicle charges which were to be recovered from NBCC.	228*
10.	Represents KHS travel and administrative costs which are not allowable under the grant.	2,500*
	TOTAL REFUND DUE	Rs. 184,146
	Equivalent dollars ($1=Rs. 8)	$ 23,018

* Represents expenditures incurred out of advance funds not yet claimed by KHS but which must be adjusted against the final reimbursement claim received from KHS.

REPORT RECIPIENTS

USAID/India	
Director	5
AID/W	
Deputy Administrator (A/AID)	1
Bureau For Asia	
Assistant Administrator (AA/ASIA)	1
Office of Bangladesh, India and Sri Lanka (ASIA/BIS)	1
Executive Management Staff (ASIA/EMS)	1
Special Assistant (AA/ASIA/SA)	1
Bureau of Development Support	
Human Resources Development (DS/DAA/HRD)	1
Office of Health (DS/HEA)	1
Office of Development Information and Utilization (DS/DIU)	4
Office of the Auditor General	
Auditor General (AG)	1
Executive Management Staff (AG/EMS)	12
Policy, Plans and Programs (AG/PPP)	1
Area Auditor General	
Area Auditor General/Washington	1
Area Auditor General/Africa (East)	1
Area Auditor General/Africa (West)	1
Area Auditor General/East Asia	1
Area Auditor General/Egypt	1
Area Auditor General/Latin America	1
OTHER	
General Accounting Office (GAO/W)	1
Inspections and Investigations Staff (IIS/Karachi)	1
New Delhi Residency	3