

PD-ANN-446

ANN-54907

AUDIT OF
RESEARCH GRANTS FOR
KING MONGKUT'S INSTITUTE
OF TECHNOLOGY
PROJECT NO. 398-0249

AUDIT REPORT NO. 2-493-88-09-N
JANUARY 29, 1988

UNITED STATES GOVERNMENT

Memorandum

TO: Dr. John R. Eriksson
Director, USAID/Thailand

DATE: January 29, 1988
RIG/EA-88-104

FROM: Leo L. LaMotte
Regional Inspector General for Audit

SUBJECT: Audit Report No. 2-493-88-09-N
Audit of the Research Grants for King Mongkut's Institute
of Technology, Project No. 398-0249

Attached is a copy of the final report on the subject audit. The certified public accounting firm of Ernst & Whinney (Bangkok) prepared the report dated August 26, 1987. The purpose of the review was to determine whether project funds were being properly accounted for in compliance with the terms of the grant and other applicable A.I.D. policies and procedures and to identify and evaluate the accounting systems and internal controls of the funds.

King Mongkut's Institute of Technology was the recipient of two A.I.D. grants totaling \$233,050 under the Program Development and Support Project No. 398-0249 which was to enhance science and technology development in Thailand. The first grant amounting to \$150,000 for the period June 20, 1983 to October 31, 1987 provided for research on "Soil Salinity Control for the Growth of Plants which can serve as Energy Source." A second grant of \$83,050 for the period June 16, 1986 to December 31, 1988 focuses on "Improved Producer Gas Cleaning System."

The auditors performed substantive and compliance tests on transactions totaling \$112,433 or 83% of actual expenditures. Of this amount, \$20,777 in costs were questioned. The grantee was found to have complied with all other material terms and conditions of the grant agreement examined.

This report recommends that USAID/Thailand resolve with King Mongkut's Institute of Technology questioned costs in the amount of \$20,777, and that USAID/Thailand assist the University to resolve internal control problems identified in this report. These recommendations however will not be separately reported. These recommendations included in the Inspector General's audit recommendation follow-up system by mutual agreement of USAID/Thailand and RIG/A/Manila. Instead, these recommendations are consolidated into Audit Report No. 2-493-88-04-N entitled "Audit of Science and Technology Research Grants, Project No. 398-0249."

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26th August, 1987

Mr. Leo L. La Motte,
Regional Inspector General/Audit,
Agency for International Development,
Ramon Magsaysay Center,
1680 Roxas Blvd., Manila 2801,
PHILIPPINES.

Dear Sir,

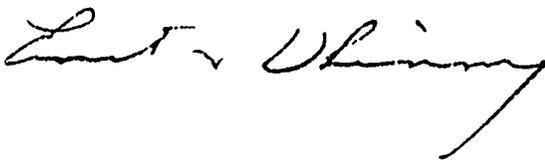
KING MONGKUT'S INSTITUTE OF TECHNOLOGY
- Grant No. 936-5542-G-SS-3036-00
- Grant No. 936-5542-G-00-6050-00

We have completed our examination of the systems and controls with respect to the above captioned in accordance with the contract no. 398-0249-G-00-6048-00 dated 15th June, 1986 as per amendment no. 1 and 2 and present herewith our findings and recommendations.

The matters dealt with in this report are based on the information and documents provided to us and therefore our comments cannot be expected to be exhaustive and to include all possible weaknesses on the systems of accounting and internal control.

Should you require clarification on the report or additional information to be added to, please feel free to contact us.

Yours faithfully,



Encl.
RT:jk

RESEARCH GRANT
KING MONGKUT'S INSTITUTE OF TECHNOLOGY

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1. INTRODUCTION

This report provides the results of our review of accounting system and internal control under the contract of which the contents are summarised as follow :

GRANTEE : The Royal Thai Government acting through the Department of Technical and Economic Cooperation. King Mongkut's Institute of Technology will act on behalf of the Department of Technical and Economic Cooperation concerning the administration of the grant.

GRANT : The grants included in the exercise are summarised as follow :

<u>Grant No.</u>	<u>Project Outline</u>	<u>Project Period</u>	<u>Budgeted Amount</u> <u>US\$</u>
936-5542-G-SS-3036-00	Soil Salinity Control for the Growth of Plants which can Serve as Energy Source.	20/6/83-31/10/87	150,000
936-5542-G-00-6050-00	Improved Producer Gas Cleaning System.	16/6/86-31/12/88	83,050

RESULT OF AUDIT :

<u>Grant No.</u>	<u>Date of Received Report</u>	<u>Fund</u>	<u>Actual</u>		<u>Questioned</u>	
		<u>to date</u>	<u>Spending Reported</u>	<u>Amount Verified</u>		<u>Cost</u>
		<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>%</u>	<u>US\$</u>
936-5542-G-SS-3036-00	31/3/87	124,639	124,031	101,758	82	18,536
936-5542-G-00-6050-00	28/2/87	<u>21,650</u>	<u>10,675</u>	<u>10,675</u>	<u>100</u>	<u>2,241</u>
		146,289	134,706	112,433	83	20,777
		=====	=====	=====	===	=====

REMARK : The above tabulation is based on the exchange rate of US\$ 1 = Baht 26 which had been adopted in translating Baht figures to U.S. dollars except for disbursement of Technical Assistance of US\$ 11,400 for Grant no. 936-5542-G-SS-3036-00 which were directly paid by AID, the exchange rate at the prevailing date was adopted.

: For questioned costs, details are set out in individual grant reports in Baht value as follow :

<u>Grant Number</u>	<u>Appendix</u>
936-5542-G-SS-3036-00	I
936-5542-G-00-6050-00	II

2. INITIAL DISCUSSION

Initial discussion with the principal investigators, the field work in respect of evaluating, testing the systems of internal control, reported expenditure and compliance thereto with terms of grant agreement and final discussion on findings with the principal investigators were conducted during 22nd April, 1987 to 11th June, 1987.

3. ADMINISTRATION OF GRANT

3.1 For Grant no. 936-5542-G-SS-3036-00

King Mongkut's Institute
of Technology

Principal Investigator

- Receiving of fund /
- Custody of project fund /
- Procurement of goods and services /
- Receiving of goods and services /
- Disbursement authorization /
- Staff recruitment /
- Recording of books of account /
- Financial report /
- Custody of books of account /
- Physical control /
- Management control review of operating performance

3.2 For Grant no. 936-5542-G-00-6050-00

King Mongkut's

Institute of Technology Principal Investigator

- Receiving of fund /
- Custody of project fund /
- Procurement of goods and services for payment greater than Baht 5,000 for payment not greater than Baht 5,000
- Receiving of goods and services /
- Disbursement authorization /
- Staff recruitment /
- Recording of books of account /
- Financial report /
- Custody of books of account /
- Physical control /
- Management control review of operating performance

4. AUDIT

At the time of this exercise no audit had been conducted by the internal auditor of King Mongkut's Institute of Technology or Department of Technical and Economic Cooperation and Office of the Auditor General of Thailand except for Grant no. 936-5542-G-SS-3036-00 of which project documents and records are periodically submitted to Office of the Auditor General of Thailand for auditing. No audit report has been received from the Office of the Auditor General of Thailand.

5. SCOPE OF WORK

The objective of the exercise is to review financial and internal control systems established by the research grantee institution and the principal investigators. Specifically, under the terms of the engagement this encompasses :

- 5.1 Hold initial discussion with research grantee institution and principal investigators concerning systems review and audit work to be performed.
- 5.2 Examine the accounting systems and internal controls of the research grantee institution and the principal investigators.
- 5.3 Ascertain the propriety of procedures used by the grantee to authorize and bill USAID for expenditures under the grant.
- 5.4 Examine a representative sample of expenditures reimbursed by USAID as to their compliance with USAID requirements.
- 5.5 Ascertain whether the grantee had completed with the terms of the grant.
- 5.6 Prepare an audit report for RIG/A/MANILA which include an outline of specific deficiencies as well as any recommendations for improvement.

The examination was conducted in accordance with generally accepted government auditing standards appropriate to the scope of audit as described below.

The scope of audit encompassed an examination of research grantee institution/principal investigators' financial operating procedures, financial transactions, accounts and reports and included such tests of these records and such other auditing procedures as were necessary in the circumstances. Our audit does not include coverage of the economy and efficiency of operations, nor do we attempt to assess the results of the contract performance.

Receipts and disbursements were documented and reviewed. Compliance and substantive tests were carried out.

6. FINANCIAL STATEMENTS

We have examined the Status Of Funds/And Request For Funds of King Mongkut's Institute of Technology for the grants and the periods as set out in section 1 of this report.

Our examination was made in accordance with generally accepted auditing standards and the financial and compliance elements of the Standards for Auditing of Governmental Organisations, Program, Activities and Functions, issued by the U.S. Comptroller General in 1981, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as set forth in the following paragraph.

We have not received the detailed budget of the Grant no. 936-5542-G-SS-3036-00 in order to ascertain whether the disbursements of US\$ 124,031 up to 31st March, 1987 relate to the grant or not. Furthermore, as mentioned in the section 5 of this report, our scope of work does not include coverage of the economy and efficiency of operations, nor do we attempt to assess the results of the contract performance.

The Status Of Funds/And Request For Funds includes costs in the amount of US dollars 2,241 for Grant no. 936-5542-G-00-6050-00 as set out in section 1 of this report which we have questioned for the adequacy of supporting documentation and for disallowance under the terms of grant agreements.

Since the amounts as set out in paragraph 3 of this section is significant, we thus at this stage cannot express our opinion to the disbursements of Grant no. 936-5542-G-SS-3036-00 in respect of its relation to the grant objective.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the ultimate resolution of the allowability of the questioned costs contained in the Status Of Funds/And Request For Funds been known, the Status Of Funds/And Request For Funds of King Mongkut's Institute of Technology for Grant no. 936-5542-G-00-6050-00 and the periods as set out in paragraph 4 of this section presents fairly the expenditures, in conformity with generally accepted accounting principles.

This report is intended solely for the use of the Agency for International Development and should not be used for any other purpose.

7. COMPLIANCE MATTERS

We have examined the Status Of Funds/And Request for Funds of King Mongkut's Institute of Technology for the grants and the periods as set out in section 1 of this report.

Our examination was made in accordance with generally accepted auditing standards; the provisions of Standards for Audit of Governmental Organisations, Programs, Activities and Functions, promulgated by the U.S. Comptroller General, as they pertain to financial and compliance audits; the Guidelines for Financial and Compliance Audits of AID Financed Agreements and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, we found that for the grant items tested, King Mongkut's Institute of Technology complied with the material terms and conditions of the terms of grant agreement, except as stated below in the individual grant reports as follow :

<u>Grant Number</u>	<u>Appendix</u>
936-5542-G-SS-3036-00	I
936-5542-G-00-6050-00	II

As for the transactions not tested, based on our examination and the procedures referred to above, nothing came to our attention to indicate King Mongkut's Institute of Technology had no complied with the material terms and conditions of the terms of grant agreement.

8. STUDY AND EVALUATION OF INTERNAL ACCOUNTING CONTROL

The management of the research grantee institution is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by the research grantee institution are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorised use or disposition and that transactions are executed in accordance with the research grantee institution's authorization and recorded properly to permit the preparation of the Status Of Funds/And Request For Funds in accordance with the accounting practices prescribed by OMB Circular A-122, Cost Principles for Nonprofit Institutions and/or the terms and conditions of the grant agreements. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected.

Our study and evaluation revealed weaknesses in the systems of internal control to which the weaknesses and recommendations are addressed in this section. The matters as addressed came to our notice during the conduct of financial and compliance audit which are designed primarily with a view to the expression of opinion on the accounts and compliance with the terms and conditions of the grant agreements and our comments cannot be expected to include all possible weaknesses in the systems of accounting and internal control. Accordingly, we do not express an opinion on the system of internal accounting control of King Mongkut's Institute of Technology and principal investigators taken as a whole. However our study and evaluation disclosed no condition that we believe to be a material weakness.

Findings and recommendations resulting from study and evaluation of internal accounting control are as follow :

8.1 ADMINISTRATION OF GRANT FUNDS

Finding

Administration of grant funds are by the principal investigators except for the areas as set out in section 3.

Recommendation 8.1

In order to promote the efficiency and effectiveness of research undertaken by the principal investigators, (ie : to allow greater time to be devoted to research work) administration could be performed by King Mongkut's Institute of Technology. Similarly, the Institute may be in a better position to administer due to administrative staff complement who are technically competent in administration.

8.2 DISBURSEMENT - TERMS OF GRANT AGREEMENT

Finding

For the two grants included in the exercise disbursements not in accordance with the terms of grant agreement and disallowable cost are made without prior written approval from USAID.

Recommendation 8.2

It is recommended that disbursement not in accordance with the terms of grant agreement and disallowable cost should be made against prior written approval from USAID.

8.3 FIXED ASSETS

Finding

For the two grants included in the exercise no fixed assets register nor tag numbers are assigned to fixed assets of the projects.

Recommendation 8.3

In order to provide a sound control over fixed assets, acquisition date, value, location, tag number be maintained and kept up to date. Tag numbers should be affixed to assets to facilitate identification and inspection of assets against register is to be carried out annually.

8.4 PAYMENT - SUPPORTING DOCUMENTS

Finding

With reference to Grant no. 936-5542-G-SS-3036-00, in certain cases there are insufficient documentary evidence as to the receipt of payment by supplier.

Recommendation 8.4

In order to substantiate payments the followings are recommended :

- (i) Third party evidence (i.e. official receipt) containing details of name or trade-name and location of the entity issuing the receipt, date, amount, kind, description, quantity and price of goods be obtained.
- (ii) Should this not be feasible (e.g. payment to individual), photocopy of identification card including signatory of recipient be obtained.

8.5 TIME RECORD

Finding/Recommendation 8.5

With reference to Grant No. 936-5542-G-00-6050-00 in order to comply with the terms of grant agreement, time record should be prepared to document the time actually devoted to the project by each person.

8.6 FINANCIAL REPORTS

Finding/Recommendation 8.6

With reference to Grant no. 936-5542-G-SS-3036-00 financial reports should be submitted on a timely basis to USAID. (ie. quarterly).

RESEARCH GRANT
KING MONGKUT'S INSTITUTE OF TECHNOLOGY
NORTH BANGKOK CAMPUS
GRANT NO. 936-5542-G-SS-3036-00
SOIL SALINITY CONTROL FOR THE GROWTH OF PLANTS
WHICH CAN SERVE AS ENERGY SOURCE

PREPARED FOR : REGIONAL INSPECTOR GENERAL/AUDIT/MANILA

PREPARED BY : ERNST & WHINNEY (BANGKOK)

KING MONGKUT'S INSTITUTE OF TECHNOLOGY
NORTH BANGKOK CAMPUS
SOIL SALINITY CONTROL FOR THE GROWTH OF PLANTS
WHICH CAN SERVE AS ENERGY SOURCE

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* These pages are not included, refer to summary report.

6. RESULT OF VERIFICATION OF DISBURSEMENTS

<u>Description</u>	<u>Total Budgeted</u>		<u>Fund received</u>	<u>Actual</u>	<u>Verification</u>	
	US\$	BAHT	<u>To date</u> BAHT	<u>Spending</u> BAHT	BAHT	%
SALARY	14,035	364,910	302,706	302,717	302,717	100
TRANSPORTATION & PER DIEM	38,617	1,004,042	847,663	852,098	429,862	50
CONSTRUCTION	39,000	1,014,000	897,000	897,000	897,000	100
PROCUREMENT	28,402	738,452	661,555	665,724	542,783	82
TRAINING	10,101	262,626	93,595	93,595	93,595	100
TECHNICAL ASSISTANCE	11,378	295,828	US\$11,400	US\$11,400	US\$11,400	100
MISCELLANEOUS	5,082	132,142	97,780	73,378	47,356	65
COMPUTER RENTAL	1,385	36,000	36,000	36,000	36,000	100
PUBLICATION	2,000	52,000	-	-	-	-
SUB-ADVANCE	-	-	7,905	7,905	-	-
BAHT	150,000	3,900,000	2,944,204	2,923,417	2,349,313	80
US\$			11,400	11,400	11,400	100

Questioned
Cost

6.1 In certain cases there are insufficient documentary evidence as to receipt of goods/services as detailed by the following :-

<u>Date of Payment</u>	<u>Description</u>	<u>Amount (Baht)</u>	
6.3.84	Weather Station Sensor	155,000	
6.3.84	Cumatological data recording system and printer model DP-80	29,500	
27.3.84	Materials for constructing two windwheel	10,966	
4.4.84	- do -	16,180	
5.4.84	- do -	12,379	
12.6.84	Weather Measure	28,200	
12.6.84	Portable Conductivity Meter	<u>33,000</u>	
		285,225	Baht 285,225
		=====	

6.2 There is no original receipt from supplier for the purchase of IBM typewriter of Baht 29,500 as per payment voucher date 26.12.83

Baht 29,500

6.3 Technical Assistance of Dr. Kochler trip to Thailand amounted to US\$ 5,970.47 was not supported by any relevant supporting documents to ensure the reliability of such disbursements. Upon discussion with Principal Investigator, the amounts were directly paid by USAID and relevant supporting documents were kept at USAID.

US\$ 5,970.47

Questioned

Cost

6.4 Supporting documents of the project are mostly available in photocopy since the original were periodically submitted to Office of the Auditor General of Thailand for audit and subsequently kept at the Ministry of University Affairs in which we are unable to obtain such original documentation for our verification.

We, however, received original supporting documents for the period as from May 1986 to March 1987 for verification.

7. COMPLIANCE - TERMS OF GRANT AGREEMENT

Based on the samples selected there has been compliance with the terms of grant agreement.

The exceptions are as follow :-

7.1 Due to the following it could not be ascertained whether the payments (eg: salary, procurement) made are allowable or not :-

7.1.1 Financial plan, attachment 1 of the grant agreement do not provide a detail break down of cost elements.

7.1.2 "Cost and budget plan" prepared prior to grant agreement were subsequently revised in which the revisions were requested for but is yet to be received.

7.1.3 Seventh and eight revisions of the financial plan of the grant were requested for but is yet to be received.

Questioned
cost

7.2 Import duty and taxes were included in the cost of equipments acquired by the project funds. Details of which are as follow :-

<u>PV# / dd.</u>	<u>Description</u>	<u>Amount of Payment</u>	<u>Amount of Duty & Tax</u>	
034/27-15.5.84	Percolometer	14,905	5,995	
033/27-15.5.84	Jet-Fill			
	Tensiometer	<u>81,715</u>	<u>5,995</u>	
		96,620	11,990	Baht 11,990
		=====	=====	

7.3 Some expenditures, upon consideration of their nature, may be recorded in incorrect line items and should therefore be reclassified in order to form a proper basis for the computation of 15 percent allowable variance. Details which are questioned are as follow :-

7.3.1 Payment for per diem of Baht 4,617 included as "salary" could be questioned as to whether it should be classified as "Transportation and Per Diem" instead.

7.3.2 Payment for driver's salary of Baht 127,335 included as "Transportation and Per diem" could be questioned as to whether it should be classified as "Salary" instead.

Questioned
Cost

7.4 Payment of Baht 150,000 was made to Siam Motors Co. Ltd. for rental of motor vehicle (eg: pick-up truck) whereby the ownership was also transferred to the grantee in accordance with the rental agreement. Due to the reasons as set out in 7.1 we are unable to ascertain whether the expense is allowable or not.

7.5 Financial reports ie. "Status of Funds/And Request For Funds" and "Federal Cash Advance Status Report" for the period as from 1st April 1986 to 30th September, 1986 were not submitted to USAID after period ended but were included in the financial reports for the period ended 31st December, 1986.

Total Questioned Baht Costs	Baht 326,715*
	=====
Total Questioned US\$ Costs	US\$ 5,970.47
	=====

* The amount of Baht 326,715 is US\$ 12,565.53 equal to US dollars at the exchange rate of US\$ 1 = Baht 26. Total questioned costs in US dollars is US\$ 18,536 (ie : US\$ 12,565.53 + US\$ 5,970.47).

8. STUDY AND EVALUATION OF INTERNAL CONTROL

Findings and recommendations resulting from study and evaluation of internal control are categorised into two types as follows :

- (i) Shortcomings or lack of internal control which are fundamental :
- in protecting an entity's resources against waste, fraud and inefficiency.
 - in ensuring the accuracy and reliability of the entity's accounting/operating data.
 - in securing compliance with the terms of grant agreement.
- (ii) Improvements in order to supplement the existing system of internal control.

8.1 SHORTCOMINGS OR LACK OF INTERNAL CONTROL

8.1.1 Administration of Grant Funds

Administration of grant funds are by the Principal Investigator except for the areas as set out in section 3.

In order to promote the efficiency and effectiveness of research undertaken by the Principal Investigator, (ie: to allow greater time to be devoted to research work) administration could be performed by the Institute. Similarly, the Institute may be in a better position to administer due to its administrative staff complement who are technically competent in administration.

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8.1.2 Fixed Assets

No fixed assets register nor tag numbers are assigned to fixed assets.

In order to provide a sound control over fixed assets, acquisition date, value, location and tag number be maintained and kept up to date. Tag numbers should be affixed to assets to facilitate identification and inspection of assets against register is to be carried out annually.

8.1.3 Terms of Grant Agreement - Import duty and taxes

With reference to 7.2 in order to comply with the terms of grant agreement, import duty and taxes cannot be reimbursed from USAID.

8.1.4 Payment - Supporting Documents

With reference to 6.2, in order to substantiate payments the following are recommended :-

- (i) Payment vouchers should be prepared and effectively authorised before disbursement and third party evidence (eg : official receipt) containing details of name or trade-name and location of the entity issuing the receipt, date, amount, kind, description, quantity and price of goods be obtained.
- (ii) Should this not be feasible (ie : payment to individual), photocopy of identification card including signatory of recipient be obtained.

8.1.5 Financial Reports

With reference to 7.5 financial reports should be submitted on a timely basis to USAID after period ended (ie. quarterly) and furthermore a report should be prepared for each quarter as per terms of the grant agreement.

8.2 IMPROVEMENTS

8.2.1 Payment - Cancellation

Authorised payment vouchers and related supporting documents are not stamped "PAID" or otherwise being cancelled upon payments.

Cancellation should be made immediately on authorised payment vouchers and related supporting documents after payments had been made in order to prevent resubmission.

8.2.2 General Ledger - Reference

Payments was recorded to General Ledger without referencing to relevant payment voucher numbers.

It is recommend that payment voucher numbers be referred to in General Ledger in order to ensure the completeness of recording and facilitate control over documentation.

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8.2.3 Evidence of Goods and Services Received

No evidence of goods and services are available, in certain cases as set out in 6.1, such that there is no proof as to the receipt of benefits.

It is recommended that receiving reports or acknowledgement on delivery order be prepared in order to substantiate that benefits had been received.

8.2.4 Withholding Tax

Payments of per diem allowance exceeding the rate authorised by the Revenue Authorities to project personnel are not subjected to withholding tax.

Failure to deduct withholding tax could render the project to be jointly liable for the tax shortfall and surcharge of 1.5 percent per month (maximum of 100 percent).

It is recommended that withholding tax be deducted when such payments are made to staff in order to preclude the consequences of the Revenue Code.

8.2.5 Travel Voucher

Payments for petrol do not state the purpose of the payments.

Travel voucher should be prepared for requisition of travelling and submitted to responsible official for approval in order to substantiate quantities of petrol consumed. The travel vouchers should indicate the following :-

- (a) time and date of departure and arrival,
- (b) location visited,
- (c) details of costs incurred, supported by documentation,
- (d) purpose of trip,
- (e) approval by responsible official.

8.2.6 Withholding Tax - Corporate Income Tax

Some payments of goods and services to suppliers are made without withholding tax of 1 percent. Any payments made by the government unit should be deducted withholding tax at the rate of 1 percent as per section 50(4) and 69 bis of the Revenue Code.

Failure to deduct withholding tax could render the Project to be jointly liable for the tax shortfall and surcharge of 1.5 percent per month (maximum of 100 percent).

It is recommended that 1 percent withholding tax be deducted when any payments are made to juristic body in order to preclude the consequence of the Revenue Code despite the fact at this point in time the amount involved is insignificant.

8.2.7 Insurance Cover

There is no insurance cover for assets purchased by USAID's fund.

Because value of fixed assets is significant we recommend that insurance policy be made to cover valuable assets.

8.2.8 Payment Voucher and Cash Book Format

Payment vouchers are not sequentially controlled in which there is no adequate procedure to ensure that they are completely and correctly recorded in each line item.

In order to ensure that all transactions are completely accounted for, payment vouchers should be prenumbered and be sequentially recorded in cash book. In addition, a multi-column cash book of which each line item of disbursements should be adopted in order to ensure the correctness of allocation of expenditures.

9. PRINCIPAL INVESTIGATOR'S RESPONSE TO THE REPORT

Ernst & Whinney

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(formerly Turquand Youngs & Co.)

20th July, 1987

Ms. Benjamas Tungmanee
Principal Investigator,
Head of Science Department,
King Mongkut's Institute of Technology
BANGKOK.

Dear Madam,

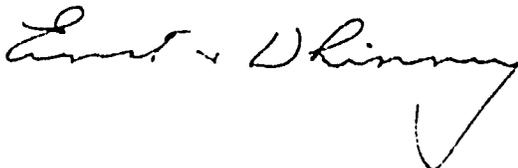
KING MONGKUT'S INSTITUTE OF TECHNOLOGY
NORTH BANGKOK CAMPUS
GRANT NO. 936-5542-G-SS-3036-00
SOIL SALINITY CONTROL FOR THE GROWTH OF PLANTS
WHICH CAN SERVE AS ENERGY SOURCE

Enclosed for your consideration please find a copy of our report (draft) in conjunction with the review of financial and internal control systems of the referenced subject.

Should you concur with the accuracy of the report kindly acknowledge in writing within two weeks from the date of this letter in order that the final report can be issued to USAID. Please feel free if you wish to provide us with any additional information/documents so as to ensure the accuracy and completeness of the report.

We would like to take this opportunity to express our appreciation to all members of the staff who have assisted us in carrying out our work.

Yours faithfully,



King Mongkut's Institute Of Technology
North Bangkok
Pibool Songkram Road
Bangkok 10800

July 31, 1987

Mr. Ernst Whinney
Office of Ernst and Whinney
G.P.O. Box 1047
Sinthon Building, 9th Floor
132 Wireless Road
Bangkok 10500

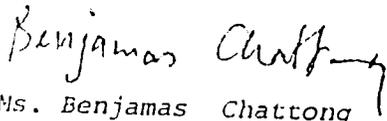
Dear Sir :

A reference of your letter dated July 20, 1987 asking me to consider the accuracy of a draft report which provided results of your review on accounting system and internal control of my research disbursement. I regret to express that some details in your report are not accurate and complete enough. In order to improve these matters the review should be repeated under the cooperation of both the financial officer and the science & technology coordinator from the office of USAID. By this approach, all questions implying any suspicion on real expenditure of this research as responded by the grantee can be answered clearly. At the meantime some problems on regulations and red tapes of either the Thai Government or the USAID which affect the inconvenience for purchasing equipments and materials can be solved together also.

Finally I wish to remind the auditor and whom to concern with that my last name has been changed to CHATTONG and please correct it in that report.

I hope that my suggestion would be considered for better improvement and still wish to contribute a cordial cooperation on your review of the next accounting report.

Sincerely yours,



Ms. Benjamas Chattong
Principal Investigator Of The Project
Soil Salinity Control For The Growth Of Plants Which Can Serve As An Energy
Source

c.c. Dr. Charoon Kamnuanta.

RESEARCH GRANT
KING MONGKUT'S INSTITUTE OF TECHNOLOGY THONBURI
GRANT NO. 936-5542-G-00-6050-00
IMPROVED PRODUCER GAS CLEANING SYSTEM

PREPARED FOR : REGIONAL INSPECTOR GENERAL/AUDIT/MANILA

PREPARED BY : ERNST & WHINNEY (BANGKOK)

KING MONGKUT'S INSTITUTE OF TECHNOLOGY THONBURI
IMPROVED PRODUCER GAS CLEANING SYSTEM

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* These pages are not included, refer to summary report.

6. RESULT OF VERIFICATION OF DISBURSEMENTS

<u>Description</u>	<u>Total Budgeted</u>		<u>Fund received</u>	<u>Actual</u>	<u>Verification</u>	
	<u>US\$</u>	<u>Baht</u>	<u>to date</u>	<u>Spending</u>	<u>Baht</u>	<u>%</u>
			<u>Baht</u>	<u>Baht</u>		
Salary	20,000	520,000	61,750	62,800	62,800	100
Equipment	38,650	1,004,900	426,400	214,750	214,750	100
Material and						
Supply	14,000	364,000	42,250	-	-	-
Travel	6,000	156,000	19,500	-	-	-
Miscellaneous						
Items	<u>4,400</u>	<u>114,400</u>	<u>13,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	83,050	2,159,300	562,900	277,550	277,550	100
	=====	=====	=====	=====	=====	=====

Questioned
Cost
(Baht)

Based on disbursement selected, Baht 33,666 reported as "Equipment" is questioned as to the adequacy of supporting documentation. The amount represents advance to project personnel for the purchase of equipment and materials which are still to be received or paid for.

33,666

7. COMPLIANCE - TERMS OF GRANT AGREEMENT

Based on the samples selected there has been compliance with the terms of grant agreement. The exceptions are as follow :

7.1 Financial reports ie. "Status of Funds/And Request For Funds" and "Federal Cash Advance Status Report" for the period as from 1st October, 1986 to 31st December, 1986 were not submitted to USAID after period ended but were included in the financial reports for the period ended 28th February, 1987.

7.2 Salaries of Baht 3,000 were paid to 3 lab staffs whom are not in the budget nor is there written approval from USAID. Details are as follow :

<u>Staff's Name</u>	<u>Amount (Baht)</u>	
Khun Polchai	1,000	
Khun Viboon	1,000	
Khun Tossapol	<u>1,000</u>	
	3,000	3,000
	=====	

3/11

- 7.3 Payments for miscellaneous items of Baht 6,278 included as "Equipment" could be questioned as to whether it should be classified to "Miscellaneous items" instead in order to form a proper basis for the computation of 15 percent allowable variance. Details are as follow :-

<u>Payment Voucher</u>	<u>Date</u>	<u>Description</u>	<u>Amount (Baht)</u>
11/2529	/14.11.86	Screen and knot	103
15/2529	/12.12.86	Diskette	500
17/2529	/24.12.86	Photocopies	1,651
21/2530	/ 9. 1.87	Photocopies	1,438
22/2530	/12. 1.87	Stationery	150
23/2530	/14. 1.87	Photocopies	300
30/2530	/ 2. 2.87	Photocopies	1,145
31/2530	/10. 2.87	Photocopies	692
34/2530	/28. 2.87	Photocopies	299
			<u>6,278</u>
			=====

- 7.4 No timesheets were prepared to document the time actually devoted to the project by the Principal Investigator, Co-investigator and related staff. We are therefore unable to state whether such person devoted the time at percentage as set out in the budget or not. However, Principal Investigator did not receive salary from the grant.

<u>Name</u>	<u>Position</u>	<u>Amount (Baht)</u>	
Dr. Domrong	Co-Investigator	21,600	<u>21,600</u>
	Total Questioned Costs		58,266

The amount of Baht 58,266 is equal to US dollars 2,241 at the exchange rate of 1US\$ = Baht 26.

8. STUDY AND EVALUATION OF INTERNAL CONTROL

Findings and recommendations resulting from study and evaluation of internal control are categorised into two types as follows :

- (i) Shortcomings or lack of internal control which are fundamental :
 - in protecting an entity's resources against waste, fraud and inefficiency.
 - in ensuring the accuracy and reliability of the entity's accounting/operating data.
 - in securing compliance with the terms of grant agreement.
- (ii) Improvements in order to supplement the existing system of internal control.

8.1 SHORTCOMINGS OR LACK OF INTERNAL CONTROL

8.1.1 Administration of Grant Funds

Administration of grant funds are by the Principal Investigator except for the areas as set out in the section 3.

In order to promote the efficiency and effectiveness of research undertaken by the Principal Investigator, (ie: to allow greater time to be devoted to research work) administration could be performed by King Mongkut's Institute of Technology. Similarly, the Institute may be in a better position to administer due to its administrative staff complement who are technically competent in administration.

8.1.2 Fixed Assets

No fixed assets register nor tag numbers are assigned to fixed assets.

In order to provide a sound control over fixed assets, acquisition date, value, location and tag number be maintained and kept up to date. Tag numbers should be affixed to assets to facilitate identification and inspection of assets against register is to be carried out annually.

8.1.3 Disbursement - Terms of Grant Agreement

Ancillary to 7.2 is that disbursements of salaries are neither in accordance with the budget nor are there prior written approval from USAID.

It is recommended that disbursement not in accordance with the budget should be made against prior written approval from USAID.

8.1.4 Time Record

With reference to 7.4 in order to comply with the terms of grant agreement, time record should be prepared to document the time actually devoted to the project by each person.

8.2 IMPROVEMENTS

8.2.1 Payment - Cancellation

Authorized payment vouchers and related supporting documents are not stamped "PAID" or otherwise being cancelled upon payments.

Cancellation should be made immediately on authorised payment vouchers and related supporting documents after payments had been made in order to prevent resubmission.

8.2.2 Cheque Payments

Cheque payments were not restrictively crossed and/or the words "or bearer" deleted.

It is recommended that, if applicable, upon payment all cheques are to be restrictively crossed in the drawer's name and the word "or bearer" be deleted in order to ensure that payment is for the account of the specified drawer only.

8.2.3 Review of Bank Reconciliation

Bank reconciliations are not initialled as an evidence of reviewing by senior personnel.

It is recommended that bank reconciliations be initialled as evidence of reviewing by higher responsible official in order to ensure the correctness of the transactions.

1/1

8.2.4 Withholding Tax - Personal Income Tax

Payments of salary and per diem allowance exceeding the rate authorised by the Revenue Authority to project person are not subjected to withholding tax.

Failure to deduct withholding tax could render the project to be jointly liable for the tax shortfall and surcharge of 1.5 percent per month (maximum of 100 percent).

It is recommended that withholding tax be deducted when such payments are made to staff in order to preclude the consequences of the Revenue Code despite the fact at this point in time the amount involved is insignificant.

8.2.5 Withholding Tax - Corporate Income Tax

Payments of goods to suppliers are made without withholding tax of 1 percent. Any payments made by the government unit to juristic body should be deducted withholding tax at the rate of 1 percent as per section 69 bis of the Revenue Code.

Failure to deduct withholding tax could render the Project to be jointly liable for the tax shortfall and surcharge of 1.5 percent per month (maximum of 100 percent).

It is recommended that withholding tax be deducted when such payments are made to juristic body in order to preclude the consequences of the Revenue Code despite the fact at this point in time the amount involved is insignificant.

8.2.6 Insurance Cover

There is no insurance cover for assets purchased by USAID's fund.

Despite the fact that at this point in time the value of assets is insignificant, we recommend that insurance policy be made to cover valuable assets especially in view of the budgeted amount.

Ernst & Whinney

PRINCIPAL INVESTIGATOR'S RESPONSE OF THE REPORT

Ernst & Whinney

29th June, 1987

Dr. Pojanie Khummongkol,
Assistant Professor,
School of Energy and Materials,
King Mongkut's Institute of Technology Thonburi,
BANGKOK.

G.P.O. Box 1047
Sinthon Building, 9th Floor,
132 Wireless Road, Bangkok 10500, Thailand.

Telephone: 2500233-7
Cable: ERNSTAUDIT BANGKOK
Telex: 87661 ERNST TH
FAX: (66) 2-2501479

(formerly Turquand Youngs & Co.)

Dear Madam,

KING MONGKUT'S INSTITUTE OF TECHNOLOGY THONBURI
GRANT NO. 936-5542-G-00-6050-00
IMPROVED PRODUCER GAS CLEANING SYSTEM

Enclosed for your consideration please find a copy of our report (draft) in conjunction with the review of financial and internal control systems of the referenced subject.

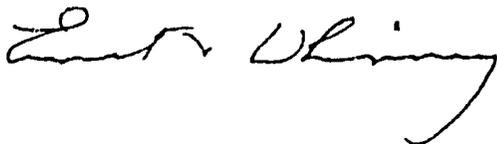
Should you concur with the accuracy of the report kindly acknowledge in writing within two weeks from the date of this letter in order that the final report can be issued to USAID. Please feel free if you wish to provide us with any additional information/documents so as to ensure the accuracy and completeness of the report.

In addition to the foregoing please advise in writing as to the following :

- Set out in 7.2 please state whether or not the staff not addressed in the budget perform services related to the research under this grant.

We would like to take this opportunity to express our appreciation to all members of the staff who have assisted us in carrying out our work.

Yours faithfully,



CA/kte

403



สถาบันเทคโนโลยีพระจอมเกล้าธนบุรี
บางมด ราษฎร์บูรณะ กรุงเทพฯ 10140
โทร. 427-0039

KING MONGKUT'S INSTITUTE OF TECHNOLOGY THONBURI

BANGMOD, RASBURANA
BANGKOK 10140, THAILAND : TEL. 427-0039

ERNST & WHINNEY
RECEIVED

09 JUL 1987

ANSWERED _____

INITIAL _____

6 July 1987

Ernst & Whinney
G.P.O. Box 1047
Sinthon Building, 9th floor,
132 Wireless Road,
Bangkok, 10500

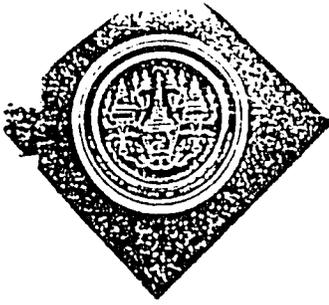
Dear sir,

We have reviewed your report on the financial and internal control systems of our project work titled "Improved Producer Gas Cleaning System". There are some points that need to be clarified as follow:

3. Administration of grant, page 4.
Procurement of goods and services under the authority of Dean of Engineering, the payment cannot be greater than Baht 50,000 and head of department/principal investigator Baht 5,000. Over Baht 50,000 it has to be signed by Rector of the institute.

7. Compliance- Terms of grant agreement.
We recieved the cash advance payment of Baht 562,900 for the period of 1st October - 31st December 1986 at the end of October (It took the USAID office one month to prepare the advance payment cheque since we have sent in the request in November 1986.) After that it took about 1 month to process the financial documents and papers to the rector to authorize the principal investigator to have full charge of authorization on this granted project. The cheque had actually been deposited in the bank on December 3, 1986 (see enclosed). So by the end of December there is no need to request for the next cash advance since we still have Baht 410,900 available. This would explain the reason that why we wait until the end of February, 1987 to send in the next cash advance payment and the financial status report.

7.2 These three persons were additional hiring to help the project work more effectively. Since the gasification process requires full time technical attendants during operation. This is due to the hazardousness of the combustible gases generated.



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It also requires 24 hours to finish one batch of operation. Therefore, at least three shifts are needed to attain during each batch run. These three persons, Polchai, Viboon, and Tossapol are our fourth-year chemical engineering students. We will definitely not hire the persons who are not involved in the project by using USAID money.

7.3 We agree with you that the items (except screen and knot) you have listed should belong to the miscellaneous items. However, our institute rules/regulations classify these items the same categories as the material and supply. So our secretary has just followed her usual routine work. This matter could be done according to the USAID itemized grant.

7.4 Practically we are hiring persons by monthly basis. However, your suggestion of time table will be used from now on.

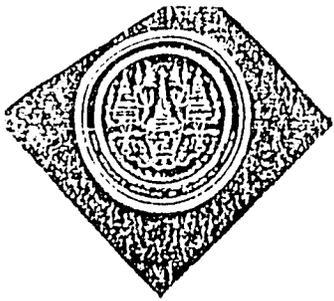
8.1.1 Administration of Grant Funds

Firstly, I would suggest to you to study the structure of the administration and rules/regulations that have been established by the institute thoroughly before making any comments concerning with our internal control. You have spent only 2 days busily going through every single accountant and reimbursement of the project so you may not have time to learn about our rules/regulations which in fact they are also under the governmental rules/regulations.

The institute has authorized the principal investigator to have full responsibility on his/her project. Any judgment of purchasing items dealing with the project could be decided by the principal investigator within the amount of money granted for the project. Eventhough the principal investigator has authority to pay bills not greater than Baht 5,000, however in practice every single bill has been acknowledged and signed by the dean of engineering. The signature of the principal investigator appeared on the bill or reimbursement form only shows the status of being the leader of the project.

Our institute has recieved nearly hundred of grants from the Thai government, public sectors, and abroad over a year. These grants although issue to the institute but actually go directly to individual departments, professors, lecturers who are writing the requests for the grants. The professors and lecturers are given prestige to carry out their works and having full access of using institute facilities with cooperation of other departments.

The reimbursement and payment of any purchasings are performed first by the secretary of individual department. The reimbursement/payment forms (bills) then proceed further to the dean office for the bills to be acknowledged and signed by the dean if the amount of payment is under Baht 50,000. Over Baht



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50,000, the bills have to be signed by the rector of the institute. Finally all the bills will go to the treasury of the institute. Here, all the bills will be recorded and kept in files at the treasury. So it is impossible for the same bill to be used twice by either our project staffs or the treasurer staffs, eventhough it has no "paid" stamp on the bill. We also have a double-checking system on the balance of project accounts that is the individual departmental account must be identical to the treasury account. The treasurer also pay the bills if they are credited bills. Normally, the purchased items over Baht 1,000 are under credited and when the time of payment, 1% tax deduction will be issued to the reciever/company. If the purchased item is under Baht 1,000, or a few hundred bahts, they normally are paid in cash at the time of purchasing. This is also called cash advance payment which can be reimbursed later with the treasury. The purpose of having cash advance payment is to induce the flexibility and to accelerate the order of urgent need of items so the work will not be delayed.

As you have suggested that the administration of grant funds should by done by the institute. Actually the process of paying the bills, ordering the equipments, financial recording are already handled by the institute and are confined under our normal routine rules/regulations. The principal investigators's authorities are then: to carry out research work and to dicide what to purchase and whom to hire. What to purchase and whom to hire, these two categories, only the principal investigators will know the best. So your suggestions seem to repeat what we are doing here at the institute.

8.1.2 Fixed Assets

The institute rules/regulations normally defined the term fixed assets as the purchased equipments/instruments that already come in packed ready to use forms. For example, gas chromatography, pH-meter, sized reduction machines. All of these items must be registered by the institute according to the governmental rules/regulations. In our case, the gasifier and the cleaning units did not come in packed form, but they have been built up using consumable goods. None of these types of construction equipments in the institute have been given register nor tag numbers. Due to the fact that these types of equipments are parts of experimental study and they may be modified, dismantled to improve their operating conditions when necessary. The governmental rules described all the fixed assets as their fixed physical conditions, therefore, any part of them can not be discarded.

However, we are indeed realized about your concern, therefore, all of these construction equipments will be given register numbers. But these recorded registration numbers will



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be kept separately from the rest of the institute assets since our institute rules/regulations do not considered them as fixed assets. we just have ordered a set of data logger from the USA which it will be used in this project. Of course its registration number will be given since it is a fixed asset.

8.1.3 Disbursement - Terms of Grant Agreement

The explanation has already been described in section 7.2. We consider these hiring of our students are within the limit of the budget for personnels. What we intend for are to have our project going smoothly and not be delayed. If the written approval from USAID is needed, we will do so. However, we feel that our flexibility and comfortability of processing our own work have been limited.

8.1.4 Time Record

We agree to do so.

8.2 Improvements

8.2.1 Payment - cancellation

These have been described in section 8.1.1.

8.2.2 Cheque Payments

These can be done also.

8.2.3 Review of Bank Reconciliation

We would like to state the fact to you that we have received the bank reconciliations every month starting from the first month of our opening account. The sample of bank statement for the first deposited month is enclosed. All the bank reconciliations are sent from the bank directly to the institute treasury. Therefore the senior official have already ensured the correctness of the transactions.

8.2.4 Withholding Tax - Personal Income Tax

The personal income tax can be clarified and paid at the end of the year (during tax clearance time which is starting in January to March of each year). Practically, our treasury will withhold tax only for the government salaries. Eventhough, the amount of tax withholds by the institute are not exact and by the end of the year we still need to clarify and making a tax balance of payment. At this time the non-governmental payment received during the year such as USAID payment can be attached to the tax clearance form. Hence our staffs will be responsible for their own tax payments. Therefore, the project will never be liable for the tax shortfall nor will pay the surcharge of 1.5 percent per month since the penalty will go to the individual person who



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BANGMOD, RASBURANA
BANGKOK 10140, THAILAND : TEL. 427-0039

does not declare all of his/her own incomes during the year. The shortfall of individual person to forget to report his/her income tax is unlikely to happen also because at the end of the year the institute treasury will send to every employee statement of all salaries earned by them as well as the amount of tax withholding within the year.

However, tax withholding for our project staffs can be done at the time of payments. This is considered to help our staffs to lessen their burdens on the lump sum payments of tax during tax clarifying time at the end of the year.

8.2.5 Withholding Tax - Corporate Income Tax

As we have mentioned earlier, the credited goods will be subject for withholding tax. This practice has already been done at the institute according to the government rules/regulations.

8.2.6 Insurance Cover

None of our institute assets have insurance cover. However, our government rules/regulations on the fixed assets are very strict. Any lost items have to be reported to the police official immediatly and the person involves will be investigated. The state inspector also checks on the institute assets annually.

We hope that our response of the report will help clarifying some of your misconceptions. We would like to point out to you that our government rules/regulations are very strict and we as the academic institute do respect to our rules/regulations. Therefore, we feel that the pride of doing our work has been intruded. Our staffs mostly are lecturers as well as the co-investigator, Dr. Damrong Khummongkol is in fact a chairman of the chemical engineering department. We have reputations not to do any things as you have mentioned as a waste, fraud and inefficient use of USAID entity's resources, or to report the inaccuracy and unreliability of the entity's accounting/operation data.

If there are additional questions to be discussed, you may contact Dr. Damrong by telephone number 427-7830.

Yours sincerely,

Pojanee Khummongkol

Pojanee Khummongkol
Principal Investigator

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