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NON-FEDERAL AUDIT OF THE  
MATERNAL AND CHILD HEALTH - FAMILY  
PLANNING EXTENSION AND THE URBAN  
VOLUNTEER PROJECTS IMPLEMENTED  
BY THE INTERNATIONAL CENTER  
FOR DIARRHOEAL DISEASE  
RESEARCH IN BANGLADESH  
PROJECT NOS. 388-0050 AND ANE-0073

AUDIT REPORT NO. 5-388-89-06-N  
SEPTEMBER 15, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT  
-- Singapore --

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September 15, 1989

MEMORANDUM FOR Priscilla M. Boughton  
Director USAID/Bangladesh  
FROM:  Reginald Howard, RIG/A/Singapore

SUBJECT: Non-Federal Audit of the Maternal and Child Health -  
Family Planning Extension and the Urban Volunteer  
Projects Implemented by the International Center for  
Diarrhoeal Disease Research in Bangladesh (Project  
Nos. 388-0050 and ANE-0073), Audit Report No.  
5-388-89-06-N.

This report presents the results of a non-Federal financial  
audit of funds provided to the International Center for  
Diarrhoeal Disease Research, Bangladesh (Center) in support of  
USAID/Bangladesh's family planning projects. The following  
projects were reviewed:

- The Center's Family Planning Extension Project  
(388-0050-G-IN-2008) is a research project designed  
to (1) evaluate Bangladesh's ability to absorb  
innovations and (2) provide guidelines for upgrading  
health and family planning services. The Center  
claimed \$3,235,549 for this project during the period  
January 1985 through June 1988.
- The Urban Volunteers Project (ANE-0073-A-00-6081) in  
Bangladesh is a project designed to reduce morbidity  
and mortality in infants and children living in the  
Dhaka area. The Center claimed \$701,907 for this  
project during the period October 1986 through June  
1988.

The certified public accounting firm of Coopers and Lybrand,  
in conjunction with its correspondent firm, A. Qasem & Co. in  
Bangladesh, performed the audit. Attached is their audit  
report.

The audit objectives were to (1) determine whether the Center's fund statements for the two projects fairly presented the projects' receipts and expenditures for the period audited; (2) evaluate the Center's system of internal accounting controls; and (3) determine compliance with applicable laws, regulations, and agreement terms. The audit periods were January 1, 1985 to June 30, 1988 for the Maternal and Child Health - Family Planning Extension Project and October 14, 1986 to June 30, 1988 for the Urban Volunteer Project.

Coopers and Lybrand issued qualified opinions on the Center's fund statements for the two projects since they were unable to perform audit tests to validate the overhead charges included in the statements. Except for the overhead charges, the auditors concluded the fund statements presented fairly the income and expenditures of the Center as they pertained to the two projects.

Coopers and Lybrand identified some minor internal control weaknesses. However, they concluded that the testing of the Center's system of internal control indicated a low risk of material errors or irregularities which would not be detected within a timely period by the Center's management.

Coopers and Lybrand noted several noncompliance issues. These included the failure of the Center to submit an actual indirect cost rate to USAID/Bangladesh for review, approval, and audit; lack of prior approval for two instances of international travel; poor controls over fixed assets provided to the Center under the projects; and use of expenditure estimates when submitting reimbursement/advance requests.

USAID and the Center's comments to the draft report (Appendix 1) were taken into consideration by the auditors in preparing the attached audit report. The Coopers and Lybrand report contains 12 different recommendations which we have combined into four recommendations. Accordingly, the following recommendations will be included in the Office of Inspector General's audit recommendation follow-up system.

### Recommendations

We recommend that USAID/Bangladesh:

1. Require the Center to (a) submit for USAID review, audit, and approval the overhead cost proposals for fiscal years 1985 through 1988; and (b) defer further payment of all indirect costs claimed until the proposals have been submitted.

2. Ensure the Center establishes and implements written procedures to:

(a) Require appropriate Center officials to periodically verify the validity of employees included in the masterfiles by comparing payroll masterfile data fields against personnel records, review gross payroll registers, compare monthly general ledger reconciliations with cost ledgers, review monthly bank reconciliations, and provide evidence of these verifications and reviews.

(b) Adequately control and account for A.I.D.-funded project equipment.

(c) File copies of USAID/Bangladesh approvals with documentation supporting expenses.

3. Require the Center to advise USAID of expenditure estimates included in reimbursement requests. USAID should then defer reimbursements based on estimates until actual expenditure information is provided.

4. Determine whether the international travel expenses of \$825.25 and \$2,214.93 incurred under the two projects are allowable costs and if retroactive approval can be granted to authorize the trips. If the travel expenses are determined not to be an allowable cost and/or if retroactive approval cannot be granted for the trips, issue a bill of collection to recover the costs of the trips.

#### Management Comments and RIG/A/Singapore Assessment

USAID and the Center generally concurred with the audit report findings and recommendations. Their joint comments are included as Appendix 1. Based upon the comments, Recommendation No. 1 is resolved and can be closed when the Center submits the indirect cost proposals to USAID.

Closure action was requested on several parts of Recommendation No. 2 based on actions taken or planned to be taken by the Center. However, this recommendation, while

considered resolved, will remain open until USAID/Bangladesh (a) obtains evidence that the Center has established the required written procedures; (b) verifies that periodic verifications of the payroll masterfile to personnel records are made; and (c) assures that reviews are made of the gross payroll registers, general ledger, and bank reconciliations by appropriate Center officials.

Recommendation No. 3 is considered closed upon issuance of this report.

Recommendation No. 4 is unresolved. In the case of the \$825.25 international travel expense charged to the Maternal and Child Health - Family Planning Extension Project, USAID's comments included a February 5, 1987 letter from the Center requesting approval for the travel. According to USAID, the then Technical Service Director wrote a marginal note on the letter instructing another USAID employee to give concurrence. Although there was no other written approval, USAID believed the Center's letter and the marginal notation followed the correct procedure for requesting concurrence.

We cannot accept the handwritten notation on the Center's letter as evidence of prior approval for the international travel. It is unclear when the notation was written or even by who. Further, the copy of the letter provided with the comments shows someone had crossed out the notation indicating that possibly approval was not granted. Thus, the question remains as to whether this is an approved allowable project expense. Should USAID grant retroactive approval for the travel, the authority for such approval and who is authorized to grant such approval needs to be cited.

In the case of the \$2,214.93 international travel expense charged to the Urban Volunteer Project, USAID's comments included a letter dated June 15, 1989, from the USAID project officer to the Center granting retroactive approval for the travel. However, as discussed in the previous paragraph, USAID needs to cite the authority for granting retroactive approval and whether the project officer can grant such approval before we can close the recommendation.

In summary, Recommendation Nos. 1 and 2 are resolved, Recommendation No. 3 is closed, and Recommendation No. 4 is unresolved. Please advise this office within 30 days of actions planned or taken to implement the open recommendations.

I appreciate the courtesy and cooperation extended to the Coopers and Lybrand and its correspondent firm, A. Qasem & Co., staff during the course of the audit.

Attachment

AUDIT OF THE  
MATERNAL AND CHILD HEALTH - FAMILY PLANNING  
EXTENSION PROJECT AND URBAN VOLUNTEERS PROJECT  
WITH THE INTERNATIONAL  
CENTRE FOR DIARRHOEAL DISEASE RESEARCH  
IN BANGLADESH

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USAID/BANGLADESH PROJECT NOS: 388-0050-G-IN-2008

AND ANE-0073-A-00-6081

AUDIT PERIODS ENDED JUNE 30, 1988

Performed and Prepared  
by

Coopers & Lybrand  
Brunei Darussalam

A.Qasem & Co  
Bangladesh

AUDIT OF THE  
MATERNAL AND CHILD HEALTH - FAMILY PLANNING  
PROJECT AND URBAN VOLUNTEERS PROJECT WITH  
THE INTERNATIONAL CENTRE FOR  
DIARRHOEAL DISEASE RESEARCH IN BANGLADESH ("ICDDR/B")  
AUDITOR'S REPORT

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**TRANSMITTAL LETTER**

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AUD/ALE/5

September 7, 1989

Mr B. R. Howard  
Regional Inspector General for Audit  
- Singapore  
US Agency for International Development  
c/o American Embassy  
30 Hill Street  
Singapore 0617

Dear Mr Howard

This report presents the results of our audit of the Maternal and Child Health - Family Planning Extension Project ("MCH-FP Extension Project") and Urban Volunteers Project ("UVP") with the International Centre for Diarrhoeal Disease Research ("ICDDR/B") in Bangladesh for the following periods:

- a) MCH-FP Extension Project from January 1, 1985 to June 30, 1988
- b) UVP from October 14, 1986 to June 30, 1988.

The above periods will be referred to as the relevant periods for the purpose of this report.

#### Background - Bangladesh

Bangladesh is the world's most densely populated agrarian country, with over 1,854 people per square mile (1986). A population growing at about 2.7 percent per year (doubling every 26 years) vitiates recent gains in agricultural production and postpones the Bangladesh Government's (BDG's) goal of food self-sufficiency. Intense population pressure on the country's fertile but finite land base is driving many Bangladesh people off the farm. While Bangladesh is still a predominantly rural, agricultural society, pressures on the land base have resulted in a rapid urban growth rate of about 5.6 percent per year. Overcrowding in rural areas has increased the number of rural households that are landless, now estimated at over 50 percent. Estimates of unemployment range from 23 percent to 42 percent, with annual labor force growth rates projected to rise from 2.8 percent in 1985 to 3.5 percent in the year 2000.

#### USAID's Involvement In The Projects

The United States Agency for International Development/Bangladesh ("USAID/B") has recognised the importance of improving the coverage, impact and quality of family planning services as a principal means of sustaining development in Bangladesh. To assist in this development USAID/B has financed:

- a) the MCH-FP Extension Project to which it has at 31 March 1988, obligated \$6,362,362 to support the project's performance under the MCH-FP grant which is due to terminate on 30 September 1990.

Mr B. R. Howard  
Regional Inspector General for Audit  
- Singapore  
US Agency for International Development  
Singapore

2.

- b) the UVP to which it has initially obligated \$4,000,000 to support the project's performance for the period October 1986 to December 1990. A further \$500,000 was obligated in June 1987 to fund the salary of the UVP Project Director and various short term consultants.

#### Project Goals - MCH-FP Extension Project

The MCH-FP Extension Project is a research project with broad goals of :-

- (a) testing the capacity of the Government of Bangladesh's existing health service infrastructure and programs to absorb innovations that have been successfully developed in special family planning projects;
- (b) researching the operational problems and difficulties of transferring such innovations to the government sector; and
- (c) providing documented guidelines on the design and implementation of strategies aimed at upgrading health and family planning services.

#### Project Goals - UVP

The goal of UVP is to reduce morbidity and mortality in approximately one million infants and children living in the slum areas of the capital city, Dhaka, through a program of child survival interventions by urban volunteers which include:

- (a) distribution and education by urban volunteers in the use of oral rehydration solution packets;
- (b) provision by volunteers of nutrition education to mothers, establish backyard vegetable gardens to improve diets of infants and children, and provide treatment to those suffering from chronic diarrhoea and Vitamin A deficiency;
- (c) attempts to reduce further, the mortality rates arising from polio, tetanus and measles by referring infants and children who have not been inoculated against such diseases to immunization centres;
- (d) provision of means, and health education to control scabies;
- (e) support for existing projects in disseminating information on family planning; and
- (f) assist in establishing a small number of nutrition education and diarrhoeal clinics.

Mr B. R. Howard  
Regional Inspector General for Audit  
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US Agency for International Development  
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3.

UVP is also to be used to increase ICDDR/B's information and statistics on the problems on which the urban volunteers are involved.

#### ICDDR/B - The Organisation

ICDDR/B to which USAID/B has provided funds to operate the projects was established on December 6, 1978 by an Ordinance passed by the Government of the People's Republic of Bangladesh. ICDDR/B is an autonomous international, philanthropic and non-profit centre of research with the aims and objectives of :-

- (a) undertaking and promoting study research and the dissemination of knowledge in diarrhoeal diseases and directly related subjects of nutrition and fertility; and
- (b) providing facilities for the training of Bangladesh and other nationals in areas of ICDDR/B's competence in collaboration with national and international institutions.

#### Results of Financial Review Performed by USAID/B

USAID/B has performed a number of financial reviews on transactions passing through the accounting records of ICDDR/B in order to determine whether :-

- (a) the billings against the funds obligated to the project were adequately supported by proper documentation and that the expenses charged to USAID in respect of the project were allowable, allocable and reasonable;
- (b) there was a system of accounting records and internal controls in place which facilitated the preparation of financial statements which were fairly presented in terms of generally accepted accounting practice; and
- (c) the organization was financially viable and possessed budgetary control systems which would facilitate the preparation of reasonable budgets of expenditure and funding requirements.

The last formal review was performed in May/June 1986 and covered the period ended April 10, 1986.

The financial reviews culminated in the conclusion that there were significant accounting and control deficiencies. This led USAID/B to :-

- (a) hold in abeyance the FY 1988 obligations for the project pending improvement of administration, accounting and financial control systems of ICDDR/B; and

Mr B. R. Howard  
Regional Inspector General for Audit  
- Singapore  
US Agency for International Development  
Singapore

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- (b) stringently impose accountability requirements on UVP as governed by the special provisions incorporated in the Co-operative Agreement; and
- (c) request for this non-federal audit of the projects' accounts and the organisation systems.

In early 1989 USAID/B awarded a contract for the development and installation of an improved accounting system at ICDDR/B to a firm of public accountants. The contract is to be funded out of funds specifically obligated to UVP for the purpose of bringing about a significant improvement in ICDDR/B's accounting and control systems.

#### Audit Objectives and Scope of Work

We conducted a financial and compliance audit of the MCH-FP Extension Project's and UVP's fund accountability statements for the relevant periods. The results of our work are reflected in the accompanying Auditors' Reports on the :-

- (a) Fund Accountability Statements;
- (b) System of Internal Controls; and
- (c) Compliance with Agreement Terms, Applicable Laws and Regulations.

The objectives of our work were to determine whether :-

- (a) The fund accountability statements for the ICDDR/B's MCH-FP Extension Project and UVP fairly present each Project's receipts and expenditures for the relevant periods in accordance with the terms of the agreement with the Agency for International Development, identifying any costs which were not fully supported with adequate records or which were not allocable, reasonable or allowable under the terms of the agreement;
- (b) ICDDR/B's system of internal controls is adequate for AID's purposes;
- (c) ICDDR/B has complied with the applicable laws, regulations and agreement terms, OMB circulars and AID's mandatory standard provisions for non-US grantees/donees; and
- (d) USAID/B has complied with its financial monitoring responsibilities in accordance with applicable laws, regulations, and agreement terms.

Mr B. R. Howard  
Regional Inspector General for Audit  
- Singapore  
US Agency for International Development  
Singapore

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The audit was conducted in accordance with generally accepted auditing standards and U.S. Government Auditing Standards stated in the U.S. General Accounting Office's "Yellow Book" entitled "Standards for Audit of Governmental Organisations, Programs, Activities, and Functions" (1981 Revision) and accordingly included such tests to determine if funds were being properly accounted for and used as directed by the Agreements or other applicable program documents or the laws of Bangladesh.

The scope of our work primarily included the following general procedures :-

- (a) Holding meetings with USAID/B, ICDDR/B and AID Regional Inspector General for Audit/Singapore officials;
- (b) Reviewing the grant agreements and amendments, OMB circulars, AID handbook regulations and mandatory standard provisions for non-US grantees/donees, prior period audit reports and letters of weaknesses, reports issued by AID financial reviewers, correspondence and minutes of meetings between USAID/B and ICDDR/B;
- (c) Obtaining an understanding of the accounting, administrative and internal control systems of ICDDR/B by the use of questionnaires, interviews, flowcharts and narrative description;
- (d) Evaluating the system of internal controls by using questionnaires etc.;
- (e) Devising and performing tests to establish the effectiveness of ICDDR/B's system of internal controls;
- (f) Devising and performing substantive tests on the transactions and balances recorded in the Fund Accountability Statements; and
- (g) Testing the effectiveness of administrative controls applied by ICDDR/B's management and USAID/B to ensure that there is compliance with the applicable laws, regulations and agreement terms.

In addition to the general audit procedures described above, during our audit work, we were continually alert to situations/transactions which could be indicative of fraud, abuse, waste and illegal acts. However, as we are not required to search specifically for fraud, abuse, waste and illegal acts, unless we became aware of evidence of such acts, our audit procedures cannot be relied upon to disclose all such matters.

Mr B. R. Howard  
Regional Inspector General for Audit  
- Singapore  
US Agency for International Development  
Singapore

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### Audit Timeframe

The audit fieldwork commenced in August 1988 and was subsequently deferred for completion to December 1988 and January 1989 because of widespread flooding in Bangladesh and the consequent after effects in the intervening period.

### Results of Audit

#### Opinion on Fund Accountability Statements

We were unable to perform audit tests to validate overhead charges amounting to \$599,380.97 reported in the fund accountability statement of the MCH-FP Extension Project and \$140,382.09 reported in the fund accountability statement of the UVP, because ICDDR/B has never during the period under audit submitted an actual indirect cost rate and supporting documentation to USAID/B for review and approval as required by OMB Circular A122 entitled "Cost Principles for Non-Profit Organisations". Except for this matter and subject to any adjustments which might arise as a result from it, in our opinion the Fund Accountability Statements present fairly the income and expenditure of the ICDDR/B as they pertain to the MCH-FP Extension Project and UVP as funded by USAID for the relevant periods and the financial position of the MCH-FP Extension Project and UVP at June 30, 1988 in conformity with U.S. generally accepted accounting principles.

#### System of Internal Controls

Our study and evaluation of the system of internal controls of ICDDR/B made as part of the audit of the Fund Accountability Statements, disclosed certain conditions which we consider necessary to be brought to the attention of management of USAID/B and ICDDR/B. These conditions are summarised below:

- (a) There is no maintenance control over standing data stored in the payroll masterfile.
- (b) There is no evidence that the monthly gross payroll register is reviewed by a senior official from the Finance Office.
- (c) There is no evidence of regular reconciliations performed between the general ledger and the cost ledger in total and by individual cost line.
- (d) Bank reconciliation schedules are not reviewed by a senior official.
- (e) There appears to be poor control procedures over unsatisfied and long outstanding purchase orders.

Mr B. R. Howard  
Regional Inspector General for Audit  
- Singapore  
US Agency for International Development  
Singapore

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The above conditions were considered in determining the nature, timing and extent of the audit tests applied by us in the examination of the Fund Accountability Statements and the conditions have not affected our reports dated April 3, 1989 on those Statements.

The results of our testing of the system of internal controls indicate that there is a relatively low risk of material errors and irregularities in respect of both projects not being detected within a timely period by ICDDR/B's management.

Because our study and evaluation of the system of internal controls were made for limited purposes, it would not necessarily disclose all weaknesses in the system, and therefore, we do not express an opinion on the system of internal controls of ICDDR/B taken as a whole.

Compliance with Agreement Terms, Applicable Laws and Regulations

Our tests for compliance with agreement terms and applicable laws and regulations of selected transactions and records of ICDDR/B and USAID/B indicate that, for the items tested, ICDDR/B and USAID/B complied with those provisions of agreement terms and applicable laws and regulations in which non-compliance could have a material effect on ICDDR/B's fund accountability statements for the projects except for the following items summarised below :-

- (a) There is considerable non-compliance with the agreement between USAID and ICDDR/B in respect of those clauses governing indirect cost (overhead) rates to be applied to direct costs expended on projects funded by USAID;
- (b) Prior concurrence of USAID/B is not always received for international travel and the use of some consultants;
- (c) There are poor controls over the existence of fixed assets utilised by the project;
- (d) Estimates of expenditure for the last month of each quarter were being incorporated into financial data being supplied by the MCH-FP Extension Project to USAID/B; and
- (e) The audit trail to establish whether expenses charged against funds obligated to the project is time consuming for auditors/financial reviewers to follow.

We are unable to determine whether the non-compliance will have a material effect on the Fund Accountability Statements of the MCH-FP Extension Project and the UVP for reasons stated in paragraph 3 of our auditors reports dated April 3, 1989 on those Statements.

Mr B. R. Howard  
Regional Inspector General for Audit  
- Singapore  
US Agency for International Development  
Singapore

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With respect to transactions and records not tested by us, nothing came to our attention to indicate that ICDDR/B and USAID/B have not complied with the agreement terms, applicable laws and regulations in connection with MCH-FP Extension Project and UVP.

Management Comments on Findings and Recommendations

USAID/B and the management of ICDDR/B have indicated that they are in agreement with our findings. Various measures are being taken to rectify the weaknesses which were highlighted during our audit work. These measures include enhancements to user controls over the payroll system, improvements in the performance of, and evidencing supervisory controls over, the general and cost ledgers and bank reconciliations.

In respect to the major areas of non-compliance which were found, ICDDR/B has agreed to submit overhead rates for review, approval and audit within the timetable set down by USAID/B, and systems are being implemented to apply more controls over fixed assets. A filing system has been implemented to improve the audit trail and discussions are being held with USAID/B over questioned costs for international travel.

Yours truly

COOPERS & LYBRAND

AUDITORS' REPORT  
ON  
FUND ACCOUNTABILITY STATEMENT

Mr B. R. Howard  
Agency for International Development  
Regional Inspector General for Audit  
- Singapore  
Singapore 0106

MATERNAL AND CHILD HEALTH - FAMILY PLANNING  
EXTENSION PROJECT WITH THE  
INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH  
IN BANGLADESH

USAID/BANGLADESH PROJECT NO.: 388-0050-G-IN-2008

AUDITORS' REPORT ON FUND ACCOUNTABILITY STATEMENT

1. We have examined the Fund Accountability Statements set out on pages 11 to 13 of the International Centre for Diarrhoeal Disease Research (ICDDR/B) pertaining to the Maternal and Child Health - Family Planning Extension Project ("MCH-FP Extension Project") as funded by USAID/B. Our examination was made in accordance with generally accepted auditing standards, the standards for financial and compliance audits contained in the "Standards for Audit of Governmental Organisations, Programs, Activities and Functions," issued by the U.S. General Accounting Office, and "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.
2. As described in note 2 on page 13, the Fund Accountability Statements present only the transactions and balances of the MCH-FP Extension Project fund and are not intended to present fairly the income and expenditures and financial position of ICDDR/B as a whole in conformity with U.S. generally accepted accounting principles.
3. We were unable to perform audit tests to validate the overhead charges of \$599,380.97 stated in the income and expenditure statement because ICDDR/B has never during the period under audit submitted an actual indirect cost rate and supporting documentation to USAID/B for their review and approval in accordance with the requirements of OMB Circular A-122 entitled "Cost Principles for Non-Profit Organisations."

Mr B. R. Howard  
Agency for International Development  
Regional Inspector General for Audit  
- Singapore  
Singapore

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4. Except for the matter set out in paragraph 3 above and subject to any adjustments which might arise therefrom, in our opinion, the Fund Accountability Statements present fairly the income and expenditure of the International Centre for Diarrhoeal Disease Research as they pertain to the MCH - FP Extension Project as funded by USAID/B for the period January 1, 1985 to June 30, 1988 and the financial position of the MCH-FP Extension Project at June 30, 1988 in conformity with U.S. generally accepted accounting principles.

COOPERS & LYBRAND

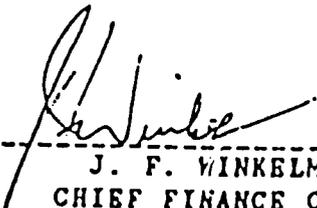
COOPERS & LYBRAND  
Brunei Darussalam

April 3, 1989

ICDDR,B MCH FP EXTENSION PROJECT  
 BALANCE SHEET  
 AS AT 30 JUNE 1988

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ASSETS	US\$
Bank Balance	2,412.01
Receivable from USAID	231,511.64
	-----
Total assets	233,923.65
	=====
LIABILITIES:	US\$
<hr/>	
Payable to ICDDR,B	233,923.65
	=====

  
 -----  
 J. F. WINKELMANN  
 CHIEF FINANCE OFFICER

DATED APRIL 3, 1989

ICDDR,B MCH FP EXTENSION PROJECT  
 INCOME & EXPENDITURE STATEMENT  
 FOR THE PERIOD JAN 85 TO JUNE 88

-----  
 US\$  
 -----

Contribution from USAID:

Received 3,004,037.26  
 Receivable 231,511.64  
 -----

Total contribution

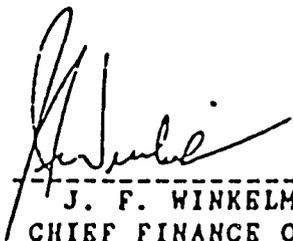
3,235,548.90  
 =====

Expenditure

Personnel 1,776,001.90  
 Travel 196,305.00  
 Supplies & Equipment 292,021.47  
 Computer Services 219,870.00  
 Others 151,969.56  
 Indirect cost 599,380.97  
 -----

Total expenditure

3,235,548.90  
 =====

  
 -----  
 J. F. WINKELMANN  
 CHIEF FINANCE OFFICER

DATED APRIL 3, 1989

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE  
RESEARCH IN BANGLADESH ("ICDDR/B")

Notes to the Fund Accountability Statements

1. Accounting Convention

The fund accountability statements are expressed in United States of America dollars (US\$) and are prepared in accordance with the historical cost convention.

2. Component unit of ICDDR/B

The fund accountability statements present only the transactions and balances of the fund as funded by USAID and are not intended to represent the income and expenditures and financial position of ICDDR/B as a whole.

3. Conformity with US generally accepted accounting principles

The fund accountability statements are prepared in conformity with accounting principles which are generally accepted in the United States of America as applicable to accounting for a component unit of a non-governmental organisation. In particular:-

- a) Income and expenditures are accounted for on an accruals basis;
- b) Transactions not denominated in US\$ are translated in US\$ using the average exchange rate for the month in which the transaction took place. Assets and liabilities not denominated in US\$ are translated into US\$ at rates of exchange ruling at the reporting date.

Mr B. R. Howard  
Agency for International Development  
Regional Inspector General for Audit  
- Singapore  
Singapore 0106

URBAN VOLUNTEER PROJECT WITH THE  
INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH

IN BANGLADESH

USAID/BANGLADESH PROJECT NO.: ANE-0073-A-00-6081

REPORT ON FUND ACCOUNTABILITY STATEMENT

1. We have examined the Fund Accountability Statements set out on pages 16 to 18 of the International Centre for Diarrhoeal Disease Research (ICDDR/B) pertaining to the Urban Volunteer Project (UVP) as funded by USAID/B. Our examination was made in accordance with generally accepted auditing standards, the standards for financial and compliance audits contained in the "Standards for Audit of Governmental Organisations, Programs, Activities and Functions," issued by the U.S. General Accounting Office, and "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.
2. As described in note 2 on page 18, the Fund Accountability Statements present only the transactions and balances of the UVP fund as funded by USAID/B and are not intended to present fairly the income and expenditures and financial position of ICDDR/B as a whole in conformity with U.S. generally accepted accounting principles.
3. We were unable to perform audit tests to validate the overhead charges of \$140,382.09 stated in the income and expenditure statement, because ICDDR/B has never during the period under audit submitted an actual indirect cost rate and supporting documentation to USAID/B for their review and approval in accordance with the requirements of OMB Circular A-122 entitled "Cost Principles for Non-Profit Organisations."

Mr B. R. Howard  
Agency for International Development  
Regional Inspector General for Audit  
- Singapore  
Singapore

4. Except for the matter set out in paragraph 3 above and subject to any adjustments which might arise therefrom, in our opinion, the Fund Accountability Statements present fairly the income and expenditure of the International Centre for Diarrhoeal Disease Research as they pertain to the Urban Volunteer Project (UVP) as funded by USAID/B for the period October 14, 1986 to June 30, 1988 and the financial position of the UVP at June 30, 1988 in conformity with U.S. generally accepted accounting principles.

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Brunei Darussalam

April 3, 1989

ICDDR,B--URBAN VOLUNTEER PROGRAM  
BALANCE SHEET  
AS AT JUNE 30, 1988

ASSETS	US\$
Bank	2,583.20
Receivable from USAID	72,381.39
Total assets	----- 74,964.59 =====
LIABILITIES	US\$
Payable to ICDDR,B	74,964.59 =====

  
 -----  
 J. F. WINKELMANN  
 CHIEF FINANCE OFFICER

DATED: April 03, 1989

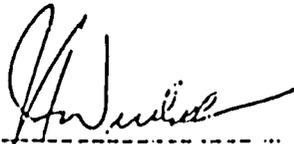
ICDDR,B - URBAN VOLUNTEER PROGRAM  
 INCOME AND EXPENDITURE STATEMENT  
FOR THE PERIOD OCTOBER '86 TO JUNE '88

INCOME

Amount received from USAID	US\$ 629,525.12
Amount receivable	72,381.39
	-----
CONTRIBUTION FROM USAID	US\$ 701,906.51
	=====

EXPENDITURE

Salaries	US\$ 278,697.31
Travel	34,836.40
Supplies & equipment	118,815.89
Training	24,843.36
Other direct costs	104,331.46
Overhead	140,382.09
	-----
TOTAL EXPENDITURE	US\$ 701,906.51
	=====

  
 -----  
 John F. Winkelmann  
 Chief Finance Officer

DATED: April 03, 1989

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE  
RESEARCH IN BANGLADESH ("ICDDR/B")

Notes to the Fund Accountability Statements

1. Accounting Convention

The fund accountability statements are expressed in United States of America dollars (US\$) and are prepared in accordance with the historical cost convention.

2. Component unit of ICDDR/B

The fund accountability statements present only the transactions and balances of the fund as funded by USAID and are not intended to represent the income and expenditures and financial position of ICDDR/B as a whole.

3. Conformity with US generally accepted accounting principles

The fund accountability statements are prepared in conformity with accounting principles which are generally accepted in the United States of America as applicable to accounting for a component unit of a non-governmental organisation. In particular:-

- a) Income and expenditures are accounted for on an accruals basis;
- b) Transactions not denominated in US\$ are translated in US\$ using the average exchange rate for the month in which the transaction took place. Assets and liabilities not denominated in US\$ are translated into US\$ at rates of exchange ruling at the reporting date.

AUDITORS' REPORT  
ON THE  
SYSTEM OF INTERNAL CONTROLS

Mr B. R. Howard  
Agency for International Development  
Regional Inspector General for Audit  
- Singapore  
Singapore 0617

MATERNAL AND CHILD HEALTH - FAMILY PLANNING  
EXTENSION PROJECT AND URBAN VOLUNTEER PROJECT WITH THE  
INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH  
IN BANGLADESH  
USAID/BANGLADESH PROJECT NO.: 388-0050-G-IN-2008  
AND ANE-0073-A-00-6081

REPORT ON THE SYSTEM OF INTERNAL CONTROLS

We have examined the financial statements of the International Centre for Diarrhoeal Disease Research in Bangladesh (ICDDR/B) pertaining to Maternal and Child Health - Family Planning Extension Project (MCH-FP) and the Urban Volunteers Project (UVP) as funded by USAID/Bangladesh for the periods January 1, 1985 to June 30, 1988 and October 14, 1986 to June 30, 1988 respectively, and have issued our reports thereon dated April 3, 1989. As part of our examination, we made a study and evaluation of the system of internal controls, including applicable internal administrative controls, used by ICDDR/B in administering the Projects to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office and Guidelines for Financial and Compliance Audits of AID-Financed Agreements. For the purpose of this report, we have classified the significant internal accounting and administrative controls used by ICDDR/B in administering the Projects in the following categories :-

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- Singapore  
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Accounting Controls:

- Payroll
- Procurement
- Cash Disbursements
- Cash Receipts
- General Ledger

Administrative Controls:

- USAID Financial Reports
- Cost Allocation and Allowability
- Monitoring

The management of ICDDR/B is responsible for establishing and maintaining the system of internal controls used in administering the Projects. In fulfilling that responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used by ICDDR/B in administering the Projects are to provide management with reasonable, but not absolute, assurance that, regulations, policies and resources are safeguarded against waste, loss and misuse; and reliable data are obtained, maintained and fairly disclosed in reports.

Our study included all of the applicable control categories listed above. With respect to the system of internal controls used in administering the Projects, our study and evaluation included consideration of the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

Because of inherent limitations in any system of internal accounting and administrative controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

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Agency for International Development  
Regional Inspector General for Audit  
- Singapore  
Singapore

Because our study and evaluation of the system of internal controls was made for the limited purposes of the audit of the MCH-FP Extension Project and UVP, it would not necessarily disclose all weaknesses in the system, and therefore we do not express an opinion on the system of internal controls of ICDDR/B taken as a whole. However, our study and evaluation disclosed the conditions described in Findings 1 to 5 accompanying this report on pages 22 to 27. The results of our testing of the system of internal controls indicate that there is a relatively low risk of material errors and irregularities in respect of the MCH-FP Extension Project and UVP not being detected within a timely period by ICDDR/B's management.

The conditions found were considered in determining the nature, timing and extent of the audit tests applied by us in the examination of the Fund Accountability Statements, and the conditions have not affected our reports dated April 3, 1989 on those Statements.

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

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Brunei Darussalam

April 3, 1989

1. THERE IS NO MAINTENANCE CONTROL OVER STANDING DATA STORED IN THE PAYROLL MASTERFILE

Condition

There are inadequate user controls over the maintenance of the standing data in the payroll masterfile to ensure that such data is accurate and up-to-date. Standing data includes permanent data such as employees' number, name, payrates etc. against which transaction data (e.g. the month of payment, overtime hours etc.) are processed.

Although controls exist to ensure that all standing data are completely and accurately updated, no specific procedures are in force to ensure that such data, once set up, continues to remain correct and current. Such control procedures are normally referred to as maintenance controls.

Criteria

Sound accounting control practice requires that there should be maintenance controls over standing data recorded on all important computer masterfiles. Such controls are normally implemented together with an appropriate segregation of duties.

Maintenance controls are required to ensure the integrity of standing data stored in computer masterfiles by acting as a safeguard against unauthorised amendments to, or corruption of the standing data.

The frequency and basis of maintenance controls is largely dependent on the importance of the standing data and the existence and strength of other controls.

Maintenance control techniques include the following:

- (a) printing out on a cyclical basis, all standing data of accounting significance from the masterfiles for a 100% check to authorised source documents. The cycle should ensure that all standing data is subject to a check once a year.
- (b) code special programs to examine data on file and report items that appear incorrect or out-of-date.
- (c) continual verification of hash totals of selected fields of accounting significance in the records (eg. a sum total of employees' identification numbers used specifically for computer control purposes). This will entail having a special program written to accumulate and display the totals and keeping a manual record of the totals to provide the independent verification.

**Cause**

ICDDR/B places heavy reliance on :-

- (a) one-to-one checking of data input to its computer files;
- (b) the reliable operation and integrity of software program procedures including password controls; and
- (c) segregation of duties between its Finance and Personnel Departments and the autonomous Computer Department.

to ensure that there is no unauthorised amendments to, or corruption of standing data recorded on the payroll masterfile.

Control procedures to ensure satisfactory maintenance of the standing data recorded in the payroll masterfile may not have been considered because of management's confidence in the present computer system.

**Effect**

Without maintenance control over the standing data stored in the payroll masterfile, there is risk that unauthorised amendments to payroll standing data could be made to support invalid payments which would not be promptly detected.

**Recommendation**

We recommend that ICDDR/B introduce, as a minimum, the following additional procedures in order to improve controls over the maintenance and integrity of the payroll masterfile:

- (a) performance of an annual or more frequent periodic verification of all datafields in the payroll masterfile by a one-for-one check between a printout of all masterfile data and the employee records kept in the Personnel Office; and
- (b) verifying the validity of all employees included in the payroll masterfile through written confirmations received from all heads of departments/divisions at least once a year.

The above tasks should be performed and controlled by persons who are independent of the payroll accounting function.

**Management Comments**

ICDDR/B introduced a control measure in early 1989 whereby all changes to standing data are printed on an exceptions report for clearance by the Personnel Department.

Additional controls planned for implementation in the near future are:-

- (a) the annual verification in writing of payroll masterfile printouts by all department heads; and
- (b) the performance of periodic verification of the datafields in the payroll masterfile against ICDDR/B's personnel records.

2. **THERE IS NO EVIDENCE THAT THE MONTHLY GROSS PAYROLL REGISTER IS REVIEWED BY A SENIOR OFFICIAL FROM THE FINANCE OFFICE**

---

Condition

Although the net payroll disbursement sheet is signed by the Payroll Manager, the Head of Financial Accounting, the Budget and Finance Officer and the Chief Financial Officer, there is no evidence in the form of signatures/initials that the gross payroll registers have been reviewed by the Chief Financial Officer of ICDDR/B prior to signing cheques for payment of salaries.

Criteria

Sound accounting and control practice requires that payrolls be reviewed, checked and approved by senior officials before payments are made and such checks, reviews and approvals should be evidenced in writing.

Cause

Reliance is placed on scrutinies and test checks performed by the Head of Financial Accounting, the Budget and Finance Officer and the Chief Financial Officer to ensure validity of the entries in the payrolls. However, they do not initial or sign on the gross payroll registers to evidence the work done by them.

Effect

Management may not be reviewing the deductions from gross pay for reasonableness.

Recommendation

We recommend that ICDDR/B management ensures the review of the gross payroll registers is evidenced by the Chief Financial Officer, the Budget and Finance Officer and the Head of Financial Accounting.

Management Comments

ICDDR/B's management agrees with the recommendation and stated that all future gross payroll registers should be reviewed and initialled by the Chief Financial Officer, Budget and Finance Officer and Head of Financial Accounting.

3. **THERE IS NO EVIDENCE OF REGULAR RECONCILIATIONS PERFORMED BETWEEN THE GENERAL LEDGER AND THE COST LEDGER IN TOTAL AND BY INDIVIDUAL COST LINE**

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**Condition**

The General Ledger is reconciled to the Cost Ledger monthly. However, there is no evidence that the reconciliation is reviewed by a senior official.

**Criteria**

As the Cost Ledger forms the basis for reimbursement by USAID, there is a requirement in Standard Provision No.2 attached to each grant/co-operative agreement, to ensure that the analysis of costs to USAID projects are accurate. Sound accounting and control practice requires that reconciliations be reviewed and checked and that these checks and reviews should be evidenced in writing.

**Cause**

Monthly reconciliations were performed and reviewed by a senior official, however the work performed was not evidenced by the initial or signature of that senior official.

**Effect**

Without evidence of reconciliation it is not possible for management to determine that this internal control procedure has been followed.

**Recommendation**

We recommend that ICDDR/B ensures the review of the reconciliation between the General Ledger and the Cost Ledger be evidenced.

**Management Comments**

ICDDR/B's management will institute the above recommendation. The Chief Financial Officer or his designee will initial the monthly reconciliation sheets.

#### 4. BANK RECONCILIATION SCHEDULES ARE NOT REVIEWED BY A SENIOR OFFICIAL

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##### Condition

The bank reconciliation schedules are not reviewed by a senior official.

##### Criteria

Sound accounting and control practice requires that bank reconciliations are reviewed monthly and they should be approved by a responsible official such as the Budget and Finance Officer ("BFO") or the Chief Financial Officer ("CFO").

##### Cause

Management does not consider that there is a need for a senior official to review and sign on the bank reconciliation schedules.

##### Effect

Errors or irregularities in recording of bankings and cheque payments may not be detected promptly. A cash loss to the organisation may occur if proper controls are not instituted to ensure proper clearance of outstanding items in bank reconciliations.

##### Recommendation

We recommend that ICDDR/B ensures that bank reconciliations are reviewed by the CFO and BFO and they should initial or sign on the reconciliations as evidence of their review.

##### Management Comments

ICDDR/B's management has already implemented the above recommendations.

5. **THERE APPEARS TO BE POOR CONTROL PROCEDURES OVER UNSATISFIED AND LONG OUTSTANDING PURCHASE ORDERS**

---

Condition

The organisation does not use pre-numbered purchase order forms to facilitate control over long outstanding/unsatisfied purchase orders, because the pre-numbering is ignored in favour of a number which is manually typed on each purchase order form.

Although a purchase order masterfile is in existence, it does not appear to be utilised by the Supply Office as a control over long outstanding purchase orders. The following long outstanding purchase orders were highlighted during the audit :-

	<u>Purchase Order</u> <u>No</u>	<u>Date</u>
1.	L-88/0050	14 January 1988
2.	L-88/0093	9 February 1988
3.	L-88/0106	16 February 1988
4.	L-88/0230	24 March 1988
5.	L-88/0284	7 April 1988
6.	L-88/0443	6 May 1988
7.	L-88/0471	30 May 1988

Criteria

It is established control practice that outstanding purchase orders are monitored as they represent a future commitment of expenditure which should be included in the budget when computing the amount of cash advances required to be obtained for aid agencies.

Cause

Prior to late 1988, management did not consider the monitoring of the status of purchase orders to be a priority due to the fact that payment to suppliers is only made on presentation of an invoice together with the original purchase order.

Effect

Unless outstanding orders are monitored, certain inefficiencies such as those set out below may arise:

- (a) the project's programme may be adversely affected by shortage of materials or delay of delivery of materials; and
- (b) reordering may be done while purchase orders for earlier orders are still outstanding.

Management Comments

In late 1988 a diary system was introduced in the Supply Office to track and monitor all outstanding purchase orders.

Auditors Comments

We are not making a recommendation on this matter because ICDDR/B introduced its diary system. However, we believe ICDDR/B management should monitor the performance of the newly implemented system on a periodic basis to ensure that proper controls are exercised over the usage and status of purchase orders.

AUDITOR'S REPORT ON COMPLIANCE WITH  
AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Mr B. R. Howard  
Agency for International Development  
Regional Inspector General for Audit  
- Singapore  
Singapore 0106

REPORT ON COMPLIANCE WITH  
AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

We have examined the Fund Accountability Statements of the International Centre for Diarrhoeal Disease Research (ICDDR/B) pertaining to Maternal and Child Health - Family Planning Extension Project (MCH-FP) and Urban Volunteers Project (UVP) for the periods January 1, 1985 to June 30, 1988 and October 14, 1988 to June 30, 1988, respectively, and have issued our reports thereon dated April 3, 1989. Our examination was made in accordance with generally accepted auditing standards, the standards for financial and compliance audits contained in the "Standards for Audit of Governmental Organisations, Programs, Activities, and Functions", issued by the U.S. General Accounting Office and "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.

The management of ICDDR/B is responsible for ICDDR/B's compliance with agreement terms, laws and regulations. In connection with the examination referred to in the paragraph above, we selected and tested transactions and records from the Projects. The purpose of our tests was to obtain reasonable assurance that ICDDR/B had, in all material respects, administered the Projects in compliance with agreement terms and applicable laws and regulations, including those pertaining to financial reports, claims for advances and reimbursements; non-compliance with which we believe could have a material effect on the allowability of the Projects' expenditures. USAID Bangladesh is responsible for monitoring compliance with agreement terms, applicable laws and regulations.

Mr B. R. Howard  
Agency for International Development  
Regional Inspector General for Audit  
- Singapore  
Singapore 0106

The results of our tests indicate that for the transactions and records tested, ICDDR/B and USAID/B have complied with the agreement terms, applicable laws and regulations except for those matters described in Findings 1 to 6 accompanying this report on pages 30 to 37. We are unable to determine whether the non-compliances will have a material effect on the Fund Accountability Statements of MCH-FP Extension Project and UVP for reasons stated in our auditors' reports dated April 3, 1989 on the Fund Accountability Statements. In respect of the transactions and records not tested, nothing came to our attention to indicate that ICDDR/B and USAID/B have not complied with the agreement terms, applicable laws and regulations in connection with the administration of the MCH-FP Extension Project and UVP.

This report is intended solely for the use of ICDDR/B's management and USAID/Bangladesh and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which upon acceptance by the AID Regional Inspector General for Audit/Singapore, is a matter for public record.

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COOPERS & LYBRAND  
Brunei Darussalam

April 3, 1989

1. **THERE IS CONSIDERABLE NON-COMPLIANCE WITH THE AGREEMENT BETWEEN USAID AND ICDDR/B IN RESPECT OF THOSE CLAUSES COVERING INDIRECT COST (OVERHEAD) RATES TO BE APPLIED TO DIRECT COSTS EXPENDED ON PROJECTS FUNDED BY USAID.**
- 

Condition

ICDDR/B has never, during the period under audit review, submitted an actual indirect cost rate to USAID/B for their review, approval and audit.

Criteria

OMB Circular A-122 (Attachment A, Section E, Para 2) entitled "Cost Principles for Non-Profit Organisations" requires that:-

- (a) Non-profit organisations which have not previously established overhead rates with a donor shall submit its initial indirect cost proposal to the cognisant agency. The proposal should not be submitted later than 3 months after the effective date of the award of funds. Those which have previously established overhead rates are required to submit new indirect cost proposals to the donor within six months of each financial year end; and
- (b) Overhead rates, whether provisional or final, are to be negotiated between the donor and donee and the results of the negotiation shall be formalised in a written agreement between the two parties which is required to be distributed to all concerned U.S. Government agencies.

Cause

Not known. Neither USAID/B nor ICDDR/B officials nor those of ICDDR/B could provide documentary evidence to show that there was compliance with AID regulations.

Effect

ICDDR/B may have been over/under claiming indirect costs from USAID/B.

Recommendation

USAID/B should require ICDDR/B to submit the final actual overhead rates for the years 1982 to 1988 within 90 days from the date of this report, for their review, approval and audit.

Management Comments

USAID/B concur with the findings and recommendation. ICDDR/B has agreed to take action necessary to submit its final actual overhead rates for the audit period to USAID/B for review, approval and audit, within the time frame specified in the above recommendation.

2. **MCH-FP EXTENSION PROJECT - PRIOR CONCURRENCE OF USAID/B WAS NOT ALWAYS OBTAINED FOR INTERNATIONAL TRAVEL**

---

Condition

Out of a total of 23 cases examined by us during our audit of the MCH-FP Extension Project, prior concurrence of USAID/B was not found in one case which is set out below:

<u>Name of traveller</u>	<u>Trip</u>	<u>Voucher No.</u>	<u>Date</u>	<u>Amount \$</u>
Mr. U.S. Barua	Dhaka-Bangkok-Dhaka	D1336	May 3, 1987	825.25 -----

Criteria

Amendment 9 to the MCH-FP Extension Project Grant Agreement requires that prior approval of USAID be obtained for the use of grant funds expended on international travel.

Cause

ICDDR/B has represented to us that they had applied to USAID/B but no approval was found in ICDDR/B files.

Effect

USAID/B may be reimbursing non-allowable costs.

Recommendation

1. USAID/B should determine if the above international travelling expense amounting to \$825.25 is allowable. If not, USAID/B should issue a bill for collection of the disallowed amount.
2. USAID/B should also remind ICDDR/B management of their responsibilities towards obtaining prior approval for expending AID provided funds on international travel.

Management Comments

USAID/B have informed us that a written request was received from ICDDR/B in respect of the above travel. A copy of the letter of request is included in their project files. The documentation of approval for the expense will be discussed with RIG/A/Singapore in order to finally determine its allowabilty.

3. **URBAN VOLUNTEER PROJECT - PRIOR CONCURRENCE OF USAID/B WAS NOT ALWAYS OBTAINED FOR INTERNATIONAL TRAVEL AND FOR THE USE OF SOME CONSULTANTS**

---

Condition

ICDDR/B (Urban Volunteers Project) did not always obtain prior USAID/B approval for international travel and the use of consultants as required by the co-operative agreement as shown by the following examples:

(a) International Travel:

<u>Traveller</u>	<u>Destination</u>	<u>Voucher No.</u>	<u>Amount</u> \$
Dr. Diana R. Silimperi	Dhaka-Baltimore Maryland-Dhaka	D00048 dt. 31-12-87	2,214.93 -----

(b) Use of Consultants:

<u>Name of Consultant</u>	<u>Starting Date</u>	<u>Concluding Date</u>
Ms. Nancy Hughart	20-09-86	31-03-88
Ms. Claire Fauveau	25-01-86	21-10-88
Dr. Shakuntala Thilsted	14-09-87	31-12-88
Ms. Kathlene McNamara	24-02-88	23-08-88
Mr. J. Charles Simmons	07-05-88	06-07-88

Criteria

Article VIII (1) and (G) of the Co-operative Agreement require prior approval or concurrence from USAID/B for the use of USAID funds for international travel expenses and the use of consultants.

Cause

(a) International Travel

It was originally understood that the above detailed expense would be reimbursed under another funding agreement. As Dr Silimperi is the UVP Director the expense was subsequently charged to UVP because there were delays in finalising the aforementioned funding agreement. As result of this arrangement, prior approval for the expense was not sought.

(b) Use of Consultants

UVP management sought and obtained retroactive approval in May 1988, for consultants employed by them in periods prior to that date.

Effect

USAID/B may be reimbursing a non-allowable cost for the international travelling expense detailed above.

3. URBAN VOLUNTEER PROJECT - PRIOR CONCURRENCE OF USAID/B WAS NOT ALWAYS OBTAINED FOR INTERNATIONAL TRAVEL AND FOR THE USE OF SOME CONSULTANTS (cont'd)

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Recommendation (Cont'd)

USAID/B should:

- (a) determine the allowability of the international travelling expense detailed above valued at \$2,214.93.
- (b) issue a bill of collection to ICDDR/B for any disallowed costs; and
- (c) remind ICDDR/B's management of their responsibilities towards obtaining prior approval for expending AID provided funds on international travel and consultants' fees.

Management's Response

UVP management assumed that the international travelling expense detailed above would be covered by the Applied Diarrhoeal Disease Research (ADDR) agreement, though there were delays in finalising the agreement. Consequently, ICDDR/B Finance Office transferred these expenditures to the UVP-USAID grant and submitted the expenditures to USAID/B. ICDDR/B has now requested USAID/B (letter dated April 9, 1989) for retroactive approval for Dr. Silimperi's trip.

Comments received from USAID/B

USAID/B informed us that retroactive approval has been given for the above questioned costs in respect of international travel, because their follow up work on the matter found that the expenditure was an allowable use of project funds.

USAID/B has reminded ICDDR/B of the need to obtain prior approval for all international travel.

4. **THERE ARE POOR CONTROLS OVER THE EXISTENCE OF FIXED ASSETS UTILISED BY THE PROJECTS**

---

Condition

We noted that:

- (a) the fixed asset register was not up-to-date when we performed our audit fieldwork in late December 1988/early January 1989.
- (b) Although a count of fixed assets had been performed in April/May 1988, no reconciliation of the count had been made.
- (c) Fixed asset counts are not performed frequently enough to verify the existence of the assets. The last count prior to that mentioned above, occurred in 1985.

Criteria

Standard Provision No.2 entitled "Accounting, Audit and Records", requires that a grantee or donee's financial management system shall provide effective control over and accountability of property and other assets, and shall adequately safeguard all such assets.

Cause

ICDDR/B has only recently computerised its fixed asset register. As part of the implementation, a list of additions and deletions for 1986 and 1987 was circulated to departments and divisions for verification purposes. There were some delays in replies and also collating the data received and performing a reconciliation to the fixed asset register.

It is the Centre's policy only to perform a fixed asset count once in every three years.

Effect

1. Unless the fixed asset register is properly updated and reconciled to timely periodic physical counts of fixed assets there is no assurance that fixed assets are properly accounted for and safeguarded.
2. If fixed assets go missing they would not be fully utilised by ICDDR/B for the whole of their economic lives, therefore causing program inefficiencies to occur.
3. Further ICDDR/B may have to replace missing fixed assets to enable the program to function efficiently and this will be a waste of donors' cash resources.

**Recommendations**

- 1 USAID/B should ensure that ICDDR/B keeps an up-to-date fixed asset register and that the fixed asset register is agreed or reconciled to physical counts of fixed assets on a timely periodic basis.
2. We recommend that ICDDR/B's management considers adopting a system of perpetual inventory counts of fixed assets on a systematic and regular basis covering all fixed assets within a period of say, one year. If such a system is implemented, then ICDDR/B's policy of performing a full fixed asset count every three years would appear reasonable.

**Management Comments**

A reconciliation of the computerised fixed asset register to physically sighted assets was completed in February 1989.

ICDDR/B's management intends to introduce a system of perpetual asset counts. Work is underway to catalogue the fixed assets and upgrade the computer system to facilitate perpetual counts.

5. MCH-FP EXTENSION PROJECT - ESTIMATES OF EXPENDITURE FOR THE LAST MONTH OF EACH QUARTER WERE BEING INCORPORATED INTO THE FINANCIAL DATA BEING SUPPLIED TO USAID/B

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Condition

ICDDR/B (MCH-FP Extension Project) submitted Form SF 269, the Quarterly Financial Status Report, and SF 270, the request for advance or reimbursement, which incorporated estimates of expenditure which is incurred in the last month of each quarter. The estimates appear to be reimbursed by USAID/B. However, since December 1988 with the inception of the new grant agreement, ICDDR/B is reporting on an actual basis, and payments are now being made by USAID/B on the basis of one month advance and one month reimbursement cycle.

Criteria

OMB Circular A-110 requires that SF 269 and SF 270 be completed with actual expenditure and where accruals are made, they should be made through best estimates based on an analysis of the documentation on hand at the time of preparing the forms.

Cause

The estimates were adopted because ICDDR/B's accounting system was unable to process all data to generate actual expenditure totals for inclusion in the SF 269 and SF 270 for the last month in the quarter to be submitted within 30 days of each quarter end.

Effect

If the estimates are greatly inflated, then USAID/B could be providing advance in excess of 90 days of budgeted expenditure which is not permitted by U.S. government regulations.

Recommendation

USAID/B should:-

- (a) request ICDDR/B to advise them of any estimated which are incorporated in the financial reports being submitted to obtain reimbursement and advances; and
- (b) defer any reimbursement being requested based on estimated data until the actual expenditure is made known to USAID.

Management Comments

USAID/B informed us that they are satisfied that the matter detailed in the above condition arose due to the limitations of an accounting system which is no longer utilised by ICDDR/B.

ICDDR/B has agreed to inform USAID/B of any estimates included in future financial reports. When this happens USAID/B will defer reimbursement until the actual expenditures are known.

6. THE AUDIT TRAIL TO ESTABLISH WHETHER EXPENSES CHARGED AGAINST FUNDS OBLIGATED TO THE PROJECT IS TIME CONSUMING FOR AUDITORS/FINANCIAL REVIEWERS TO FOLLOW

Condition

The organisation's vouchers are not filed in donor specific files and certain documents, in particular, AID approvals, are not always filed with the documentation supporting the expenses which are charged to USAID/B.

If an auditor or financial reviewer wishes to perform scrutinies of a large number of AID project specific documents for approval only, it would be very difficult because the voucher files contain the vouchers in respect of all of ICDDR/B projects. As a result, the only audit strategy is to select a relatively small but representative sample of expenses and trace them to all the relevant documents with the help of ICDDR/B's staff. This exercise is however very time consuming.

Criteria

Standard provision No. 2 attached to the agreement requires that a donee's accounting records should facilitate an effective audit.

It is also considered that an effective audit would normally be performed in a cost and time efficient manner, therefore, the accounting system should also facilitate this.

Cause

ICDDR/B considers that it is more cost efficient for them to run a centralised system rather than one which involves 100 different filing systems.

Effect

Large amounts of time may have to be spent by auditors/financial reviewers to fully validate a sample of expenses charged to USAID.

Recommendation

We understand the difficulties of ICDDR/B if it were to file vouchers relating to each project in a donor specific file as it has more than 100 projects supported by donors at any time. However, we would recommend that ICDDR/B files a copy of USAID approvals in a separate file and the individual approval should be cross-referenced to the organisation's vouchers and supporting documentation files for easy reference.

Management Comments

The above recommendation has already been implemented.

**UNITED STATES OF AMERICA**  
**AGENCY FOR INTERNATIONAL DEVELOPMENT**  
Dhaka, Bangladesh

July 06, 1989.

**MEMORANDUM**

**TO :** Thomas B. Anklewich, RIG/A/Singapore

**FROM :** Malcolm Purvis, Director (A), USAID/Dhaka  
John Winklemann, Chief Financial Officer, ICDDR,B

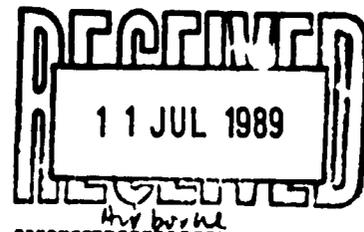
**SUBJECT:** Consolidated USAID - ICDDR,B response to Coopers and Lybrand draft audit reports on the ICDDR,B Maternal Child Health and Family Planning (MCH-FP) Extension Project and the Urban Volunteers Project (UVP).

**REF :** Your memo of June 9, 1989

Attached are the joint comments of USAID and ICDDR,B on the subject draft audit report. Our comments are in three parts:

- I. Comments regarding findings or recommendations which are identical in both the MCH-FP and UVP draft reports.
- II. MCH-FP draft report comments.
- III. UVP draft report comments.

As you will note, our comments are fairly few and we are in general concurrence with the reports findings and recommendations, most of which have already been implemented. The exit interviews and discussions held between ICDDR,B USAID, RIG/A, and the auditors were most constructive and, we feel, contributed greatly to mutual understanding of facts and issues. We appreciate the time taken by RIG/Singapore to travel to Dhaka for that purpose.



I. FINDINGS AND RECOMMENDATIONS COMMON TO BOTH MCH-FP and UVP  
DRAFT AUDIT REPORTS:

A. Background

On page 3 of both the MCH-FP and UVP reports in regard to the contract for the development and installation of an approved accounting system at ICDDR,B it states that the contract was awarded by USAID/B in late 1987. By way of clarification, the contract was awarded by ICDDR,B in early 1989, in accordance with contracting guidelines approved by USAID/B.

B. Fund Accountability Statement

We are in agreement with the audit findings in respect to fund accountability and pleased to learn that the auditors found both grants' Fund Accountability Statements to be accurate for the period audited and in conformity with U.S. generally accepted accounting principles.

Regarding the auditors' inability to validate overhead charges, see section D, compliance.

C. Internal Controls

We are in general agreement with the findings and recommendations in this section, and are pleased to note that for both grants the results of the auditors testing of the system of internal controls indicated a low risk of material errors or irregularities which would not be detected within a timely period by ICDDR,B's management.

In regard to specific recommendations common to both grants, our comments are as follows:

1. Controls For Payroll Masterfile Standing Data: As noted in the report, ICDDR,B has already instituted an additional control measure whereby all changes to standing data are printed on an exceptions report for clearance by the Personnel Department. In addition, we concur with the two recommendations made in the draft audit report. ICDDR,B will now circulate the payroll masterfile to all department heads for written confirmation on an annual basis. Periodic verifications of the datafields of the payroll masterfile against the personnel records will also be done. The accounting firm hired under the UVP agreement to improve ICDDR,B accounting systems is now reviewing the personnel computer system and payroll computer system so that such verification by cross-checking can be done. Based on these corrective actions underway, we request that this recommendation be closed upon issuance of the final report.

2. Monthly Review of Gross Payroll Register: We agree with the audit recommendations and all future gross payroll registers will be reviewed and initialed by the Chief Financial Officer, Budget and Finance Officer and the Head of Financial Accounting. We request that upon institution of this measure, the recommendation be closed.

3. Reconciliations between the General and Cost Ledgers: In accordance with the audit recommendation, ICDDR,B has instituted a requirement that the Chief Finance Officer or designee initial the monthly reconciliation sheets. This corrective action is already in place and we therefore request that this recommendation be closed upon issuance of the final report.

4. Review of Bank Reconciliation Schedules: The recommendation that the ICDDR,B ensure the review of Bank reconciliations by having the CFO and BFO initial the reconciliation after review has already been implemented, and this is being done. We therefore request that this recommendation be closed upon issuance of the final report.

D. Compliance Issues:

1. Indirect Cost (Overhead) Rates: We concur with the findings and recommendation. ICDDR,B agrees to submit its final actual overhead rates for the audit periods within the time specified (90 days from the date of the audit report, i.e. September 5th) to USAID/B for review, approval and audit. As per USAID/B discussions with RIG/A/S, USAID will forward these to RIG/A/S for final audit. We request RIG/A/S agreement with this plan of action and closure of the recommendation after it has been completed.

2. Controls Over Fixed Assets: As noted in the audit, the ICDDR,B performs a full fixed asset count every three years. ICDDR,B intends to also adopt a system of perpetual inventory counts as per the audit recommendations, and work is underway to catalog assets and upgrade the computer system to facilitate this. This is a major task given the size of the institution and multitude of projects, and the system will be implemented phasewise by division. We anticipate it will take a minimum of one year, and perhaps closer to two before this system will be operational in all divisions. We request RIG/A/S agreement that the above plan is appropriate and that the recommendation will be closed upon submission by ICDDR,B of a schedule for its implementation.

3. Audit Trail - the recommendation that the ICDDR,B file copies of USAID concurrences together with correspondence vouchers has already been implemented. We therefore request that this recommendation be closed upon issuance of the final report.

## II. MCH-FP DRAFT AUDIT REPORT

A. Background: As a point of clarification to paragraph 3, page 1, USAID/B obligated a total of \$5,195,362 under the first cooperative agreement (388-0050-G-IW-2008-00) signed in 1982, and obligated an additional \$1,167,000 under a second cooperative agreement (ANE-0071-A-00-7058-00) signed in 1987. Under the terms of the second cooperative agreement the project's estimated completion date is September 1990. Total obligations as of March 31, 1988, therefore, are \$6,362,362.

B. Fund Accountability and Internal Controls: Please see Section I, as all recommendations in these areas apply equally to both the MCH-FP and UVP Grants.

### C. Compliance Issues Specific To the MCH-FP Grant:

1. Prior concurrence for international travel: Page 24 cites an incidence of international travel for which prior USAID concurrence was not found in the ICDDR,B files. USAID/B project files, however, contain a copy of a request for concurrence from ICDDR,B with a handwritten notation by the then Director of the Technical Office instructing another USAID employee to give concurrence. A copy of this document is attached. Although we cannot locate a written concurrence from USAID, it is USAID's opinion that the letter of request and margin notation of the Office Director indicate that ICDDR,B followed the correct procedure in requesting concurrence and that the USAID technical office concurred. The employee instructed to give concurrence was a PSC not fully familiar with AID regulations who apparently gave concurrence verbally. The possibility of such a situation recurring has been remedied by reorganizations within the Technical Office which place the ICDDR,B projects under a USDH Project Officer. In addition, ICDDR,B has been reminded that written, not verbal, concurrence are required. On this basis, we request that the recommendation be closed.

2. Incorporation of Estimations in Expenditures Statements: As noted in the draft audit report page 27, this was a past problem due to limitations in the ICDDR,B previous accounting system which has since been resolved. The current system is able to generate actual expenditure totals within the specified reporting period and all reports are now on an actual basis. ICDDR,B agrees to advise USAID/B if, for any reason, estimates are incorporated in future financial reports, and USAID/B agrees that should that situation arise we will defer reimbursement until actual expenditures are known. (We do not anticipate that this will occur give the improved capacity of the ICDDR,B accounting system). On the basis of the above, we request that this recommendation be closed upon issuance of the final report.

3. All other audit recommendations on compliance apply equally to the MCH-FP and the UVP Grants, and are thus addressed in Section I.

### III. UVP DRAFT AUDIT REPORT

A. Background : As a point of clarification to paragraph 3, page 1, the additional \$500,000 referred to was in fact obligated in June of 1987 (PIO/T 388-0073-3-70020) through a "buy-in" to the AID/W central Applied Diarrheal Research Project to fund the salary of the UVP Project Director and various short term consultants.

B. Fund Accountability and Internal Controls: Please see Section I as all audit recommendations in these areas apply equally to the MCH-FP and the UVP Grants.

C. Compliance Issues Specific to the UVP Grant:

1. Prior concurrence for international travel and for the use of consultants: USAID/B has implemented the audit recommendation. In its letter of June 15th (copy attached), USAID/B granted retroactive concurrence to the international travel in question, which was found to be an allowable use of project funds and reminded ICDDR,B of the need to clear all future international travel with USAID in advance. As noted on page 25 of the audit report, UVP management sought and obtained retroactive approval in May 1988 for consultants employed by them prior to that time, and there have been no incidences of lack of advance concurrence noted since that time. On the basis of the above, we request that this recommendation be closed upon issuance of the final report.

2. Other compliance recommendations are addressed in Section I as they are identical with these of the MCH-FP Grant draft audit.

**UNITED STATES OF AMERICA**  
**AGENCY FOR INTERNATIONAL DEVELOPMENT**  
Dhaka, Bangladesh

June 15, 1989.

Diana R. Silimperi, M.D.  
Director  
Urban Volunteer Project  
ICDDR,B  
Mohakhali  
Dhaka.

Subject : Retroactive approval for International Travel

Ref : Your letter of April 09, 1989

Dear Dr. Silimperi:

In reference to your letter of April 9th regarding your international travel in December 1987 and reasons for failure to obtain prior USAID concurrence, the USAID OPH agrees that this travel was a legitimate use of project funds to which we would have readily concurred at the time. This letter constitutes a retroactive approval for that trip.

As you know, all future international travel should be cleared with USAID in advance.

Sincerely,



Sheryl Keller  
Project Officer  
Office of Population and Health



INTERNATIONAL CENTRE FOR  
DIARRHOEAL DISEASE  
RESEARCH, BANGLADESH

Phone: 600171-78  
Telex: 65612 ICDD BJ  
Cable: Cholera Dhaka  
G.P.O. Box 128 Dhaka -2 Bangladesh

UICD

5 February, 1987

Ms. Sharon Epstein  
Chief  
Population & Health Division  
USAID  
Jiban Bima Bhaban  
10, Dilkusha C/A  
Dhaka

~~Andy [unclear] [unclear]~~  
... 2/17  
- Extension Project File

Dear Sharon:

As I mentioned on the telephone today, we would like to send our staff Systems Analyst, Mr. U.S. Barua to Bangkok for two weeks to get help from Mr. David Leon, a Computer Specialist Consultant in the Population Council regional office there, in designing a relational data base system for the MCH-FP Extension Project.

Mr. Barua would travel to Bangkok from 19 February to 5 March, 1987.

We have sufficient funds in our approved budget under the line item "travel and transportation." Concurrence is requested from USAID in accordance with the terms of the USAID-ICDDR,B Cooperative Agreement.

Thank you for your cooperation in this matter.

Sincerely,

Alan C. Lindquist  
MCH-FP Extension Project

ACL:mq

Appendix 2

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