

**Regional Inspector General for Audit  
Singapore**

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**AUDIT OF  
USAID'S REGIONAL DEVELOPMENT OFFICE, SOUTH  
PACIFIC'S GRANT TO PAPUA NEW GUINEA  
INSTITUTE OF MEDICAL RESEARCH  
GRANT NO.889-5967-G-SS-7046**

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**Audit Report No. 5-889-95-002  
October 31, 1994**





U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

October 31, 1994

TO: Gordon H. West, Acting Mission Director, USAID/Philippines

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

SUBJECT: Audit of USAID's Regional Development Office, South Pacific's  
Grant to Papua New Guinea Institute of Medical Research.  
Report No. 5-889-95-002-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm, Coopers & Lybrand) for your action. The audit covered the period from September 26, 1987, to December 31, 1993. During this period, Papua New Guinea Institute of Medical Research (IMR) reported that it received \$4,169,545 and expended \$4,214,420. The background information on the grant and the project is presented on pages 3 to 6 of the report.

The audit objectives were to:

- Determine whether IMR's Fund Accountability Statement presents fairly the receipts and payments under the grant;
- Report on IMR's compliance with applicable laws, regulations, and terms of the grant agreement.

The audit report concluded that:

- The Fund Accountability Statement presents fairly, in all material respects, the receipts and expenditures under the grant;
- IMR's operations complied in all material respects with applicable laws, regulations, and terms of the grant agreement.

This audit report contains five findings and recommendations and \$90,978 in questioned costs (\$13,560 ineligible and \$77,417 unsupported). IMR's management comments are presented in its entirety in Appendix B.

USAID/Philippines needs to ensure that necessary action is taken to correct the problems noted in this audit. In addition, the following recommendation will be included in the Inspector General's recommendation follow-up system:

**Recommendation No. 1: We recommend that USAID/Philippines resolve \$90,978 in questioned costs with Papua New Guinea Institute of Medical Research and recover any amounts determined to be unallowable.**

We appreciate the courtesies and cooperation USAID/Philippines and IMR extended to the auditors and our staff during the course of this audit.

Please advise me within 30 days of any actions planned or taken to close the above recommendations.

Attachment: a/s

**USAID CONTRACT NO 879-6000-C-00-4050-00**

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PAPUA NEW GUINEA INSTITUTE OF MEDICAL RESEARCH  
UNDER THE MALARIA VACCINE FIELD TRIALS PROJECT  
FOR THE PERIOD  
FROM 26 SEPTEMBER 1987  
TO 31 DECEMBER 1993**

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

5 October 1994

Mr Richard Thabet  
Regional Inspector General for Audit, Singapore  
US Agency for International Development  
#03-01/04 Tong Building  
302 Orchard Road  
SINGAPORE 0923

Dear Sir,

**THE MALARIA VACCINE FIELD TRIALS PROJECT  
GRANT NO.889-5967-G-SS-7046**

This report presents the results of our audit of the Papua New Guinea Institute of Medical Research ("IMR") pertaining to its two Grants for the Malaria Vaccine Field Trials Project ("the Project") with the United States Agency for International Development (USAID) in respect of the period 26 September 1987 to 31 December 1993 ("the audit period"). Funding under the second of the two Grants continues beyond the audit period.

The layout of the report is set out in the Table of Contents (refer page 2).

Sections E, F and G are attached to this Letter as appendices.

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resident partner  
Steven D. McCann

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

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- G MAP OF REGION**

There is no report on internal controls since this is specifically excluded from the scope of the audit.

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**A. BACKGROUND**

1. Originally the Project was meant to be in two distinct stages, namely the establishment of Baseline Data from a study population in the Wosera Region of the East Sepik Province (ESP) of Papua New Guinea (PNG) (Phases 1 & 2) and the field testing of a malaria vaccine using the study population (Phase 3). However, a suitable testable vaccine could not be developed to enable the second stage (Phase 3) of the Project to go ahead.
2. IMR was established on 11 January 1968 by an Act passed by the PNG Government in 1967 with the objects of conducting and fostering research into:
  - (a) any branch of medical science or biology;
  - (b) anthropological and sociological aspects of health and ill health; and
  - (c) matters relating to public health generally of relevance to PNG.
3. IMR carries out its aims through the provisions of money, materials and/or services from various donors and the PNG Government. USAID was a major donor to IMR during the period of the Project.

**Funding**

4. The United States Government (US) agreed to provide the Government of the Independent State of Papua New Guinea (PNG) with 2 grants to fund the Project.
5. The two governments acted through their respective duly authorised representatives as follows:
 

For US: USAID; and

For PNG: IMR.
6. The two grants, referred to above, were donated in accordance with the two agreements set out below.

**A.I.D. PROJECT NO 936-5967.89.1**

7. This is the first Grant, which was the subject of a bilateral Grant Agreement between US and PNG dated 20 September 1987 and was designated A.I.D. Project No. 936-5967.89.1 - Malaria Vaccine Trials Project ("5967").

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8. Under 5967 USAID, through its Regional Development Office in the South Pacific based in Suva, Fiji (RDO/SP), was to contribute up to USD 8,000,000 to the Project.
9. Due to the reduction in the scope of the Project (refer para 1) RDO/SP provided IMR with less funds than budgeted totalling USD 3,185,804 under 5967.
10. Two amendments were made to 5967 as follows:
  - (a) Amendment No 01, dated 31 August 1988, increased the grant to assist IMR to meet the costs of carrying out the Project from a ceiling of USD 2,000,000 to USD 3,197,750; and
  - (b) Amendment No 2, dated 19 February 1992, changed the Revised Amplified Project Description, Annex 1 of the original agreement. The amended Annex 1 is essentially more descriptive, detailed and specific than the original.
11. 5967 was originally for a period to 30 September 1992 and was subsequently extended to 30 June 1993. The extension was necessary to enable IMR to procure commodities which it had not been able to purchase under the original agreement, due to delays in implementing procedures with regard to procurement.
12. The extension period of 5967 became effective from 1 November 1992 and was strictly designated for the procurement of commodities specified by IMR in a Supplementary Equipment List, dated December 1992, and approved by RDO/SP.
13. RDO/SP provided USD 311,535 in November and December 1992 for the purpose specified in para 12. IMR spent this amount on procurement of commodities in the overlap period between the two grants, 5967 and 6001 up to 30 June 1993.
14. The principal objectives of 5967 were to gather and develop baseline data from a study population in the Wosera Region of East Sepik Province in PNG, a malaria endemic area, (Phases 1 and 2 of 5967) and on completion of Phases 1 and 2 to conduct expanded efficacy trials of Malaria Vaccines (Phase 3).
15. Phases 1 and 2 also include development of a Malaria Vaccine, an on-going objective which pervades the entire Project, and as such included limited efficacy trials in the study population.

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**A.I.D. PROJECT NO. 936-6001.89**

16. The second and final grant in respect of the Project was the subject of a separate bilateral grant agreement between US and PNG, designated as A.I.D. Project No. 936-6001.89 - Malaria Immunology and Vaccine Field Trials Project, dated 25 September 1992 ("6001").
17. 6001 essentially continued 5967 with the following modifications:
  - (a) As indicated in the title of 6001 research on malaria immunology was specifically included in the work to be carried out. Under 5967 such work was also carried out but was not specified in the agreement;
  - (b) As stated by Dr Calder, RDO/SP's Project Director, 6001 reflects the reduction in the scale of operations originally perceived under 5967, due to the unavailability of a suitable and testable vaccine. This effectively meant Phase 3 of 5967 (testing of a malaria vaccine) could not be carried out.
18. 6001, when drafted, anticipated USAID's total contribution to the Project to be up to USD 2,400,000.
19. The grant provided to IMR in 6001 was originally set at a ceiling of USD 1,235,000 but this was increased to USD 2,005,000 by amendment No 1, dated 2 August 1993.
20. The Project Assistance Completion Date originally stated in 6001 was 31 March 1995 though this was brought forward to 30 June 1994.
21. RDO/SP provided IMR with USD 1,928,806 under 6001.
22. IMR has achieved the objectives of Phases 1 and 2 of 5967 in that they have developed and completed Baseline Data for the population in the Wosera Region of East Sepik Province of PNG and have established high class facilities in this region and at Yagaum in Madang Province which can be used should a malaria vaccine be made available for testing.
23. The mechanics of RDO/SP providing funds to IMR were established early in the Project and comprised advancing funds to IMR's special USAID bank account with the Papua New Guinea Banking Corporation (PNGBC) on the basis of advance request letters for the coming quarter. The amounts of the requests were supported by expenditure projections submitted by IMR to RDO/SP with the quarterly Liquidations Reports, the equivalent of the Fund Accountability Statement ("FAS") for the Project.

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
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**Counterpart Funding**

24. Under 5967 IMR agreed to provide a minimum of USD 300,000, in cash and/or in kind to the Project.
25. IMR's overstretched accountancy resources precluded it from keeping detailed records of the counterpart contribution or of providing a schedule of counterpart contributions to USAID. However, the Director of IMR is confident that IMR's contribution greatly exceeds USD 300,000. We have obtained a specific representation from IMR to this effect.

**Allocation of indirect costs**

26. IMR has absorbed most of its indirect costs itself without recharging a proportion to the Project. The exceptions to this are set out below.
27. Utilities and telephone/facsimile costs at Yagaum were shared on a 50/50 basis between IMR and the Project from 1988 to 1992 (approximately K 252,000 (USD 235,771) of such costs been recharged to the Project in this period) and on a 25/75 basis (IMR/Project) from 1992 until the end of the Project (approximately K 151,750 (USD 141,977) of such costs being recharged to the Project in this period).

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**B. OBJECTIVES AND SCOPE OF THE AUDIT**

**OBJECTIVES**

1. To give an opinion on the reasonableness of the cumulative amounts disclosed in the Fund Accountability Statement ("FAS") referred to in the Statement of Work Article IV of our contract with USAID, submitted by IMR to RDO/SP, throughout the Project from its inception on 26 September 1987 through 31 December 1993.
2. To issue a report on the compliance of items included in the FAS with the terms and conditions of 5967 and 6001, as amended and interpreted through Project Implementation Letters ("PILs") 1 through 20 for 5967 and 1 through 4 for 6001, and applicable statutory laws and regulations in PNG.

**SCOPE**

3. The scope of our audit, as stated, covered the period from 26 September 1987 to 31 December 1993.
4. Since IMR is engaged in various other activities besides the Project our examination of its accounting records was confined to those which directly affect the Project. Also our visits to IMR's various facilities only included those which were involved in the Project and our interviews and discussions with IMR's staff were largely confined to persons who worked on the Project.
5. Our work involved obtaining an understanding of IMR's activities, its internal control system and policies and procedures for accounting for transactions. We also ascertained and considered the internal controls and accounting procedures to determine the nature, extent and timing of our audit procedures.
6. As agreed with RIG/A/S at the planning stage of our audit, we did not attempt to test IMR's internal control system, nor have we prepared an internal control report for this assignment.
7. IMR has conducted collaborative research for projects funded by other donors, closely related to and at the same time as the work on the Project.
8. The scope of our audit did not include any tests or procedures to ensure that expenditure claims made on USAID had not been duplicated by claiming for the same expense from other donors who provided funding for the collaborative research projects.

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9. The Auditor-General's reports on the annual audits in the audit period up to and including 1992, which we reviewed, did not include any comment or mention of any instances of duplication of expenditure claims of the type referred to in para 8.
10. As a result of this restriction in the scope of our audit we are unable to confirm or deny the existence of any instances of duplicated expenditure claims of the type referred to in para 8.
11. IMR did not prepare a schedule of its counterpart contributions to the Project and therefore we were unable to perform any tests of IMR's compliance with the provisions of agreement terms applicable to the provision of counterpart contributions.
12. The results of our audit are reflected in the Independent Auditor's Report on the:
  - (a) Fund Accountability Statement of the Grants (Section E); and
  - (b) Compliance with Agreement Terms, Applicable Laws and Regulations (Section F).

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**C. SUMMARY OF AUDIT RESULTS ON THE FUND ACCOUNTABILITY  
STATEMENT AND COMPLIANCE REQUIREMENTS**

**Opinion on the Fund Accountability Statement**

1. During the audit period IMR did not maintain such accounting records which would enable a straightforward linkage between the IMR's books of prime entry and the periodic Fund Accountability Statements. By the application of alternative audit procedures we have been able to obtain sufficient information and explanations that we considered necessary for the purposes of our audit.
2. As disclosed in the Fund Accountability Statement on pages 2 and 3 of Section E of this report USD 295,098 of costs were directly incurred by RDO/SP. These costs were specifically excluded from the scope of our audit and therefore our opinion as set out on page of Section E of this report is restricted to locally incurred expenditure.
3. In our opinion, the Fund Accountability Statement referred to above presents fairly in all material respects Project revenues and locally incurred expenditure for the period 26 September 1987 to 31 December 1993, in accordance with the agreement terms and in conformity with a cash basis of accounting, described in note 1 to the Fund Accountability Statement.

**Compliance with Agreement Terms, Applicable Laws and Regulations**

4. Our tests for compliance with agreement terms, applicable laws and regulations of selected transactions and records of IMR indicated that for the items tested, IMR complied with provisions of its agreement terms for the audit period.
5. No material instances of non-compliance were noted.
6. With respect to items not tested by us nothing came to our attention that IMR had not complied in all material respects with those provisions, applicable laws and regulations.
7. We identified certain questioned amounts in the Fund Accountability Statement as a result of our audit, which we have detailed on page 10 of the report.
8. We do not consider that these questioned amounts cause the Fund Accountability Statement to be materially misstated.

FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
 WITH PNG IMR UNDER THE MALARIA VACCINE FIELD TRIALS PROJECT  
 26 SEPTEMBER 1987 TO 31 DECEMBER 1993

10

DETAIL OF QUESTIONED AMOUNTS

COMMODITIES:

	K	USD
Net overstatement of amount in FAS compared to a/cing records (refer section F - Finding # 1)	61,521	57,559

RECURRENT:

Overclaim in FAS for Mar 91 re staff rent	5,000	4,678
Overclaim in FAS for Mar 91 re internal transfers	34	32
Leave travel for R Paru (non-USAID) and family	1,360	1,272
Travel for Monica Sungu in Jun 92 before she joined USAID	90	84
Error in converting invoice in DEM mistaken for GBP	947	886
Payment of non-USAID expenses in reimbursing Maprik return	1,007	942
Transactions selected for testing for which no supporting documents could be located at the time of the audit (refer Section F - Finding # 2)	21,225	19,858
Double payment for motor vehicle r & m in Feb 91	952	891
Yaguam telephone bill not allocated, charged in full to USAID	588	550
2 months rent for Yaguam paid by USAID	2,000	1,871
Double counting of Ed Renyard's salary for f/n ended 9 May 89	1,144	1,070
<b>TOTAL QUESTIONED COSTS IN RECURRENT EXPENDITURE</b>	<b>34,347</b>	<b>32,135</b>

REVENUE

IBD interest not remitted to RDO/SP (refer Section F - Finding # 5)	1,372	1,284
<b>TOTAL QUESTIONED REVENUE</b>	<b>1,372</b>	<b>1,284</b>

**TOTAL QUESTIONED AMOUNTS**

<b>97,240</b>	<b>90,978</b>
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**Note:**  
 The exchange rate used for converting Kina to USD equivalents is the rate prevailing at the time of drafting the report, ie, USD 0.9356 = Kina 1.

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
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26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**D. COMMENTS ON FINDINGS AND RECOMMENDATIONS**

1. IMR's comments on the findings and recommendations in the report set out in Section F are included in their letter, dated 3 October 1994, which is attached.

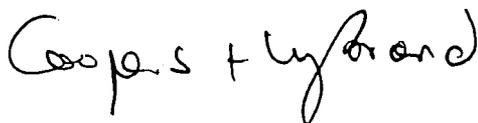
**Follow up on prior audits**

2. There have been no previous USAID audits.
3. In the course of our work, no significant or material findings and recommendations from previous audits conducted by the Auditor-General of PNG, which affect the current audit objectives, were noted.

**Acknowledgements**

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

Yours faithfully,



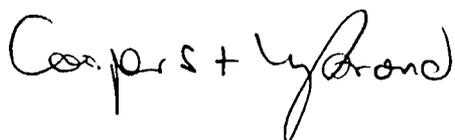
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Encls.

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**E. INDEPENDENT AUDITOR'S REPORT TO UNITED STATES AGENCY  
FOR INTERNATIONAL DEVELOPMENT (USAID)**

1. We have audited the summary of the Fund Accountability Statement (set out on pages 13 to 14) of The Papua New Guinea Institute of Medical Research (IMR) to USAID's Regional Development Office/South Pacific for the grants specified in A.I.D. Project Nos. 636-5967.89.1 and 936-6001.89 , as amended, (the grant agreements) as of and for the 75 months ended 31 December 1993 (the audit period). This Fund Accountability Statement is the responsibility of IMR's management. Our responsibility is to express an opinion on this Fund Accountability Statement based on our audit.
2. The Fund Accountability Statement has been prepared to comply with the financial reporting requirements of the grant agreements specified in paragraph 1 above, that results in a presentation on a cash receipts and expenditure basis, which excludes receivables, other assets and accruals for expenditure incurred but unpaid as of 31 December 1993.
3. We conducted our audit in accordance with relevant generally accepted auditing standards and government auditing standards as issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. Our audit includes the examining, on a test basis, of evidence supporting the amounts and disclosures in the Fund Accountability Statement. We believe that our audit provides a reasonable basis for our opinion.
4. The Fund Accountability Statement contains revenue and expenditure for the USAID funded Malaria Vaccine Field Trials Project (the Project) only and does not include any data relating to the other programmes and activities of IMR. Our examination of the Fund Accountability Statement and the underlying accounting records from which it was compiled was thus restricted to those relating to the Project only and did not include a full scope audit of IMR's accounting records and operations.
5. In our opinion, the Fund Accountability Statement, referred to in paragraph 1 above, is fairly presented in all material respects, in conformity with the basis of accounting described in paragraph 2 above.
6. The distribution of this audit report is restricted to those within IMR and USAID. This restriction is necessary because the basis of presentation is determined by reference to the grant agreements that are not generally available to third parties.



Coopers & Lybrand  
Goroka  
Papua New Guinea

3 October 1994

FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
 WITH PNG IMR UNDER THE MALARIA VACCINE FIELD TRIALS PROJECT  
 26 SEPTEMBER 1987 TO 31 DECEMBER 1993  
 FUND ACCOUNTABILITY STATEMENT

13

USD/KINA 0.9356 0.9356 0.9356

	LOP BUDGET USD	ACTUAL USD	QUESTIONED AMOUNTS		REFERENCE (FINDINGS AND NOTES)
			INELIGIBLE USD	UNSUPPORTED USD	

FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
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 26 SEPTEMBER 1987 TO 31 DECEMBER 1993  
 FUND ACCOUNTABILITY STATEMENT

13

USD/KINA 0.9356 0.9356 0.9356

	LOP BUDGET USD	ACTUAL USD	QUESTIONED AMOUNTS		REFERENCE (FINDINGS AND NOTES)
			INELIGIBLE USD	UNSUPPORTED USD	
<b>REVENUE</b>					
<i>Grant No 1</i>	5,837,000	2,840,357			
(A.I.D. Project No. 936-5967.89.1)					
<i>Grant No 2</i>	2,005,000	1,232,356			
(A.I.D. Project No. 936-6001.89)					
IBD interest	0	30,273	1,284		FINDING # 5
Other revenue	0	66,559			
<b>Total Revenue</b>	<b>7,842,000</b>	<b>4,169,545</b>	<b>1,284</b>	<b>0</b>	
<b>COSTS INCURRED</b>					
<i>Staffing:</i>					
Grant No 1	2,018,000	543,070			
Grant No 2	612,000	419,811			
Sub-total	2,630,000	962,881	0	0	
<i>Recurrent:</i>					
Grant No 1	1,243,000	1,114,282	12,276	19,858	PAGE 10
Grant No 2	1,096,000	813,377			
Sub-total	2,339,000	1,927,659	12,276	19,858	
<i>Commodities:</i>					
Grant No 1	1,128,000	668,345		57,559	FINDING # 1
Grant No 2	150,000	44,490			
Sub-total	1,278,000	712,835	0	57,559	
<i>Construction:</i>					
Grant No 1	851,000	611,046			
Grant No 2	0	0			
Sub-total	851,000	611,046	0	0	
<b>TOTAL COSTS INCURRED</b>	<b>7,098,000</b>	<b>4,214,420</b>	<b>12,276</b>	<b>77,417</b>	
<b>OUTSTANDING FUND BALANCE</b>		(44,875)			

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 FUND ACCOUNTABILITY STATEMENT

USD/KINA 0.9356 0.9356 0.9356

PROJECT COORDINATION, TECHNICAL ASSISTANCE AND EVALUATION/AUDIT  
 COSTS DIRECTLY INCURRED BY USAID

	LOP BUDGET USD	ACTUAL USD	QUESTIONED INELIGIBLE USD	AMOUNTS UNSUPPORTED USD	REFERENCE (FINDINGS AND NOTES)
<i>Project Coordination:</i>					
Grant No 1	353,000	266,959			
Grant No 2	47,000	16,193			
Sub-total	400,000	283,152	0	0	
<i>Technical Assistance</i>					
Grant No 1	93,000	11,946			
Grant No 2	0	0			
Sub-total	93,000	11,946	0	0	
<i>Evaluation / Audit</i>					
Grant No 1	151,000	0			
Grant No 2	100,000	0			
Sub-total	251,000	0	0	0	
<b>TOTAL QUESTIONED AMOUNTS</b>			<b>13,560</b>	<b>77,417</b>	<b>90,977</b>

Notes:

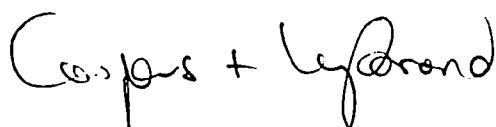
1. The amounts included in the "actual" column of the Fund Accountability Statement are presented on the basis of cash receipts and expenditure, which excludes receivables and accruals for expenditure incurred but unpaid as at 31 December 1993.
2. The exchange rate used to convert the Kina amounts to USD equivalents is the rate prevailing at the time of drafting the report, which is USD 0.9356 = Kina 1.
3. Recurrent costs are other direct costs such as rent, utilities, telephone, casual labour etc.
4. The variance between the budgetted and actual revenue for Grant No. 1 is due to the non-implementation of the second stage (Phase 3) of the Project.
5. The variance between the budgetted and actual revenue for Grant No. 2 represents money received by IMR in 1994.

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**F. Report on the Auditor's Test of Compliance with Applicable Laws and Regulations  
and Conditions of the Grant Agreements, A.I.D. Projects Nos 936-5967.89.1 and 936-  
6001.89, as amended (the grants)**

**INDEPENDENT AUDITOR'S REPORT**

1. We have audited the Fund Accountability Statement of the Papua New Guinea Institute of Medical Research (IMR) as of and for the 75 months ended 31 December 1993, and have issued our report thereon dated 3 October, 1994.
2. We conducted our audit in accordance with relevant Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.
3. Compliance with agreement terms, laws and regulations applicable to IMR is the responsibility of IMR's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of IMR's compliance with certain provisions of agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly we do not express such an opinion.
4. The results of our tests indicate that, with respect to the items tested, IMR complied, in all material respects, with the provisions referred to in paragraph 3 of this report. With respect to items not tested, nothing came to our attention that caused us to believe that IMR had not complied, in all material respects, with those provisions.
5. We noted certain instances of non-compliance, which are not material to the Fund Accountability Statement, which we have presented on pages 16 to 25. In addition we have reported to the management of IMR in a separate letter, dated 3 October 1994, certain minor weaknesses and errors we identified from our audit.
6. This report is intended for the information of the management and others within the IMR and USAID. However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.



Coopers & Lybrand  
Goroka  
Papua New Guinea

3 October 1994

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**RECORD OF AUDIT FINDINGS**

**POINT SHEET**

**FINDING # 1 - DIFFERENCES BETWEEN THE FUND ACCOUNTABILITY  
STATEMENT AND THE ACCOUNTING RECORDS**

**Condition and background**

In the absence of an audit trail and properly analysed accounting records we had to (with the assistance of IMR) derive the source of the amounts entered in the fund accountability statement (FAS) sent to RDO/SP, by analysing IMR's cash books and Revenue & Expenditure ledger for the entire audit period. The results of the audit trail so constructed, when compared to the amounts included in the FAS, revealed some differences which have not been fully explained. The comparison schedule is attached as Appendix A.

We have reported the unexplained differences in commodities expenditure as questioned costs in the Fund Accountability Statement in Section E.

**Criteria**

A proper audit trail for the computation of the amounts included in the FAS should have been kept. This task would have been easier, and therefore more likely to have been carried out by IMR had more detailed and more fully analysed accounting records been kept.

**Cause**

The cause of the differences between the FAS and accounting records has not been fully explained nor quantitatively accounted for, however, qualitatively it can be said that the differences are the result of unanalysed accounting records and a filing system for supporting vouchers which cannot be relied upon to yield information effectively and efficiently.

**Effect**

The FAS contains questioned commodities costs which cannot be readily or perhaps actually supported due to the poor link with the underlying accounting records.

**Recommendation**

We have already attempted, in conjunction with IMR, to explain the differences between the accounting records and the FAS and further effort would appear of little benefit. We have therefore recommended that the unexplained differences in commodities expenditure, highlighted in the attached comparison schedule should be treated as questioned costs.

FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
 WITH PNG IMR UNDER THE MALARIA VACCINE FIELD TRIALS PROJECT  
 26 SEPTEMBER 1987 TO 31 DECEMBER 1993  
 APPENDIX A TO FINDING # 1  
 COMPARISON OF EXPENDITURE RECORDED IN CASH BOOKS  
 AND FUND ACCOUNTABILITY STATEMENT

YEAR/ EXPENSE	1988 K	1989 K	1990 K	1991 K	1992 K	1993 K	TOTAL K
<b>STAFFING</b>							
USAID A/C	0	0	0	0	0	6,320	6,320
R&E LEDGER	898	50,620	122,101	208,572	0	0	382,191
GENERAL A/C	0	0	0	0	268,292	355,141	623,433
FAS	(898)	(49,180)	(122,375)	(208,572)	(265,079)	(383,055)	(1,029,159)
DIFFERENCE	0	1,440	(274)	0	3,213	(21,594)	(17,215)
CHECK							(17,215)
<b>RECURRENT</b>							
USAID A/C	8	24	51,669	114,557	436,849	531,525	1,134,632
R&E LEDGER	3,950	31,107	167,017	313,004	0	0	515,078
GENERAL A/C	0	0	0	0	257,946	220,223	478,169
FAS	(3,952)	(32,276)	(211,549)	(432,461)	(663,180)	(716,927)	(2,060,345)
DIFFERENCE	6	(1,145)	7,137	(4,900)	31,615	34,821	67,534
CHECK							67,534
<b>COMMODITIES</b>							
USAID A/C	0	0	136,014	72,761	159,271	191,251	559,297
R&E LEDGER	18,701	22,788	23,796	33,333	0	0	98,618
GENERAL A/C	0	0	0	0	22,299	20,167	42,466
FAS	(18,701)	(22,788)	(159,810)	(106,094)	(201,482)	(253,027)	(761,902)
DIFFERENCE	0	0	0	0	(19,912)	(41,609)	(61,521)
CHECK							(61,521)

FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
 WITH PNG IMR UNDER THE MALARIA VACCINE FIELD TRIALS PROJECT  
 26 SEPTEMBER 1987 TO 31 DECEMBER 1993

APPENDIX A TO FINDING # 1

COMPARISON OF EXPENDITURE RECORDED IN CASH BOOKS  
 AND FUND ACCOUNTABILITY STATEMENT

YEAR/ EXPENSE	1988 K	1989 K	1990 K	1991 K	1992 K	1993 K	TOTAL K
<b>CONSTRUCTION</b>							
USAID A/C	0	0	0	455,979	175,832	0	631,811
R&E LEDGER	0	0	22,734	0	0	0	22,734
GENERAL A/C	0	0	0	0	0	0	0
FAS	0	0	(23,295)	(455,978)	(173,834)	0	(653,107)
DIFFERENCE	0	0	(561)	1	1,998	0	1,438
CHECK							1,438
<b>TOTAL</b>							
USAID A/C	8	24	187,683	643,297	771,952	729,096	2,332,060
R&E LEDGER	23,549	104,515	335,648	554,909	0	0	1,018,621
GENERAL A/C	0	0	0	0	548,537	595,531	1,144,068
FAS	(23,551)	(104,244)	(517,029)	(1,203,105)	(1,303,575)	(1,353,009)	(4,504,513)
DIFFERENCE	6	295	6,302	(4,899)	16,914	(28,382)	(9,764)
CHECK	6	295	6,302	(4,899)	16,914	(28,382)	(9,764)

**EXPLANATION OF DIFFERENCE**

MARCH 1991 STAFF RENT FOR GOROKA OVERSTATED IN FAS	5,000
MARCH 1991 OVERCLAIM IN FAS FOR INTERNAL TRANSFERS	34
ERROR IN FAS FOR FOREIGN CURRENCY INVOICE	947
1990 INTERNAL TRANSFER OMITTED FROM FAS	(7,138)
DOUBLE RECORDING IN FAS OF MADANG LAB MANAGER'S SALARY FOR F/N 9 MAY 89	1,144
SPECIAL PAYMENTS TO STAFF AND GRATUITIES OMITTED FROM FAS	(13,653)
DIFFERENCE AS ABOVE	(28,382)
<b>UNEXPLAINED DIFFERENCE</b>	<b>(42,048)</b>

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**RECORD OF AUDIT FINDING**

**POINT SHEET**

**FINDING # 2 - MISSING DOCUMENTATION**

**Condition and background**

We encountered a number of occasions where our requests to sight documentation could not be met due to a failure to locate the required documents. We have detailed the instances of this in the attached Appendix A. The recorded value of the transactions in question amounts to K 21,225 (USD 19,858).

**Criteria**

The absence of supporting documentation for transactions casts doubt as to the bona fide nature of the transactions and the accounting records which include them. The failure rate to locate documentation was low in comparison to the volume of transactions examined, but significant enough to include as questioned costs.

**Cause**

The lack of a centralised filing system for documents has probably contributed to the difficulties encountered in locating documents.

**Effect**

The authenticity of unsupported transactions is challenged when documentation is not available to support them. The value of these transactions, which we identified, has therefore been included in questioned costs.

**Recommendation**

A centralised filing system should be set up and the accounts department should refer incomplete or missing documentation to the originator before processing. The staff involved in initiating and in recording transactions should be made fully aware of their responsibilities in this area. For future aid projects it would be of benefit if USAID becomes involved at the start of a project in respect of such matters.

APPENDIX A TO FINDING #2 -  
MISSING DOCUMENTATION

VOUCHER #	MONTH/ YEAR	AMOUNT K	AMOUNT USD 0.9356
6421	11/90	1,305	1,221
6356	11/90	729	682
	12/90	1,071	1,002
6516	12/90	2,271	2,125
6517	12/90	973	910
6542	12/90	2,465	2,306
6592	12/90	900	842
6605	12/90	2,617	2,448
6611	12/90	1,543	1,444
6618	12/90	2,303	2,155
1184	6/93	5,048	4,723
<b>TOTAL</b>		<b>21,225</b>	<b>19,858</b>

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**RECORD OF AUDIT FINDINGS**

**POINT SHEET**

**FINDING # 3 - INVOICES NOT ALWAYS CANCELLED WHEN PAID**

**Condition and background**

Many suppliers' invoices have not been stamped "PAID" once processed. This is supposed to be IMR's standard procedure, which also includes recording the cheque number, the payment voucher number, the date and initials of the cheque signatory on the invoice.

**Criteria**

All suppliers' invoices should be stamped "PAID" upon issuing the cheque to pay the invoice.

**Cause**

The processing clerks should take care to ensure IMR's policy in this matter is followed and supervisors should be alert for any shortcomings in following this policy.

**Effect**

The possibility of double payment is increased if this policy is not strictly followed. We identified one instance of a double payment being made for repairs and maintenance to motor vehicles, although the cause of this double payment was due to a failure to reconcile the supplier's statement. The invoice in question had been paid as an individual invoice and also as part of the statement balance. IMR claims that it received credit for the double payment but we have not seen any evidence of this.

The details of the double payment are set out below.

Invoice # 8409 from Dieter Service Engineering in Wewak for K 951.65 (USD 890) was paid by cheque # 59319 dated 6 February 1991 under voucher # 6930 as an individual invoice and again on 18 February 1991 by cheque # 59405, voucher # 7017, which paid the statement for the month of January 1991, amounting to K 1,328.06 (USD 1,243), which included invoice # 8409. The vehicle serviced included a non-Project vehicle, which IMR claims was used for the Project. The vehicle in question has a registration number, ZSA 393.

**Recommendation**

IMR's procedure for cancelling paid invoices should be more strictly enforced and the double payment has been included in questioned costs in the Fund Accountability Statement in Section F.

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**RECORD OF AUDIT FINDINGS**

**POINT SHEET**

**FINDING # 4 - EXPENDITURE FOR THE PROJECT FROM IMR'S GENERAL  
BANK ACCOUNT NOT FULLY REIMBURSED**

**Condition and background**

IMR operated two bank accounts for the Project. A special USAID account was opened at the commencement of the Project into which advances from RDO/SP were deposited and from which, expenditure on Construction (all), Commodities (part), Recurrent (part) and Staffing (very little) was made.

IMR's general account was used to pay the balance of Project expenditure not covered by the USAID account. IMR reimbursed the general account with the Project expenditure which it incurred by regularly drawing cheques on the USAID account, usually this was done at least monthly, though it was not uncommon for it to be done more often.

IMR did not formally and regularly reconcile the reimbursement cheques drawn from the USAID account to the Project expenditure made from the general account. As a result the reconciliations that were made for the audit period and for the six months ended 30 June 1994 at our request, revealed significant shortfalls in the reimbursements due to IMR's general account of K 145,859 (USD 136,466) (refer Appendix A) for the audit period and K 41,745 (USD 39,057) for the six months ended 30 June 1994, giving a total shortfall for the Project of K 187,604 (USD 175,523).

Although no audit trail existed between the accounting records of IMR and the FAS, our construction of a quasi audit trail revealed that amounts included in the FAS were extracted from the USAID account, to the extent of revenue received from RDO/SP and "direct" expenditure (all expenditure except reimbursement cheques), and the general account to the extent of Project expenditure.

**Criteria**

IMR has probably provided funds to the Project, in the form of the reimbursed cheques still due from USAID, amounting to approximately K 187,604 (USD 175,523).

**Cause**

The lack of regular reconciliations of the expenditure from the general account to the reimbursements made from the USAID account is the major reason that the general account has not been fully reimbursed for Project expenditure which has passed through the account.

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**FINDING # 4 - continued**

**Effect**

The incomplete reimbursement of Project expenditure made from the general account may have implications on IMR's counterpart funding requirements under the grants and its claims for reimbursement from USAID.

**Recommendation**

We recommend that USAID and IMR negotiate a mutually acceptable settlement of the reimbursement cheques due to IMR having considered the factors outlined above.

FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
 WITH PNG IMR UNDER THE MALARIA VACCINE FIELD TRIALS PROJECT  
 26 SEPTEMBER 1987 TO 31 DECEMBER 1993  
 APPENDIX A TO FINDING # 4

SUMMARY OF REIMBURSEMENTS AND EXPENSES

REIMBURSEMENTS FROM USAID A/C TO IMR'S A/C K	USAID XS PAID BY GEN'L A/C K	TFR FROM GEN'L A/C TO IBD A/C K	USAID XS PAID FM USAID A/C K	TOTAL USAID XS K	TOTAL PER LR K	VARIANCE REIMBMENTS K	VARIANCE XS K	YEAR
150,000	23,549		8	23,557	23,551	126,451	6	1988
25,167	104,515	50,000	24	154,539	104,244	(129,348)	50,295	1989
363,785	335,648		187,683	523,331	517,029	28,137	6,302	1990
262,396	554,909		643,297	1,198,206	1,203,105	(292,513)	(4,899)	1991
676,714	548,537		771,952	1,320,489	1,303,575	128,177	16,914	1992
588,768	595,531		729,096	1,324,627	1,353,009	(6,763)	(28,382)	1993
2,066,830	2,162,689	50,000	2,332,060	4,544,749	4,504,513	(145,859)	40,236	KINA
1,933,726	2,023,412	46,780	2,181,875	4,252,067	4,214,422	(136,466)	37,645	USD

0.9356

**FINANCIAL AUDIT OF GRANT NO 889-5967-G-SS-7046  
WITH PNG IMR UNDER THE MALARIA FIELD TRIALS PROJECT  
26 SEPTEMBER 1987 TO 31 DECEMBER 1993**

**RECORD OF AUDIT FINDINGS**

**POINT SHEET**

**FINDING # 5 - IBD INTEREST EARNED FROM INVESTING USAID FUNDS NOT  
REMITTED TO USAID**

**Condition and background**

In the early stages of the Project, IMR was not able to spend all the advances that it received from RDO/SP due to the procurement problems discussed earlier. As a result RDO/SP gave its approval to invest the surplus funds in short-term interest bearing deposit accounts on condition that any interest earned be remitted to USAID within 6 months.

The interest of K 2,484 (USD 2,324) earned up to 30 May 1990 was remitted by cheque dated 11 January 1991.

Interest earned in 1989 for the periods ended 1 June 1989 (K 2,589)(USD 2,422) 1 September 1989 (K 2,836) (USD 2,653) and 31 December 1989 (K 3,179) (USD 2,974) was not acknowledged by USAID as having been received.

Interest amounting to K 1,372 (USD 1,284) earned up to 12 February 1992 was never remitted to USAID due to an oversight by the accountant.

**Criteria**

IBD interest should have been remitted to USAID in full and on time and with acknowledgement from USAID in accordance with PIL # 10, dated 21 December 1988.

**Cause**

The accounting for IBD interest was not monitored adequately to ensure RDO/SP's requirements were met.

**Effect**

USAID has foregone interest due to it of K 1,372 (USD 1,284).

**Recommendation**

The unremitted interest should be included as a questioned amount since the effect of the non-remittance is an overfunding by USAID.

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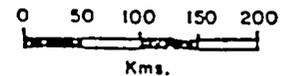
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3 October 1994

Coopers & Lybrand  
PO Box 451  
GOROKA

Dear Sirs,

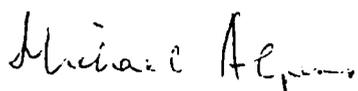
**FINANCIAL AUDIT OF THE MALARIA VACCINE FIELD TRIALS PROJECT**

I have read your report on the above mentioned audit and discussed its contents with you and representatives from USAID's office of the Inspector General.

I can hereby confirm that IMR agrees with the audit findings in section F of your report.

However, on the question of ineligible and unsupported amounts detailed in section C of your report, IMR would contend that the audit has also identified an underclaiming of direct expenditure (and an implied and probable underclaiming of indirect expenditure) over the life of the Project, which would appear to more than offset the "ineligible" and "unsupported" amounts set out on page 10 of the report.

Yours faithfully,



Dr Michael Alpers  
Director

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