

**Regional Inspector General for Audit  
Singapore**

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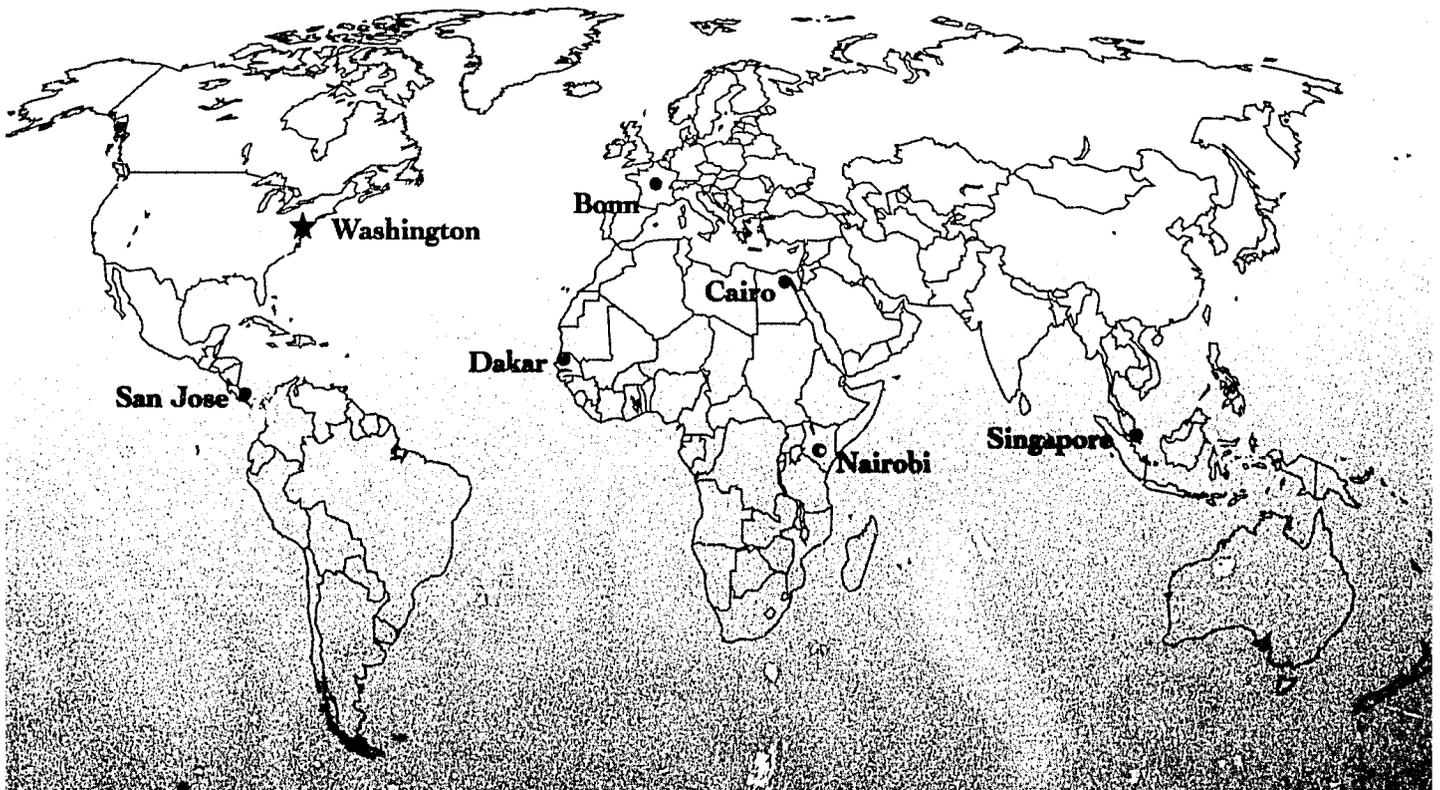
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**AUDIT OF USAID/BANGLADESH'S COOPERATIVE AGREEMENT  
WITH MICRO INDUSTRIES DEVELOPMENT  
ASSISTANCE AND SERVICES (MIDAS)  
COOPERATIVE AGREEMENT NO. 388-0066-A-00-6063  
BANGLADESH**

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**Audit Report No. 5-388-95-006N  
February 10, 1995**



**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

February 10, 1995

TO: Richard M. Brown, Mission Director, USAID/Bangladesh

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

SUBJECT: Audit of USAID/Bangladesh Cooperative Agreement with Micro Industries Development Assistance and Services (MIDAS)  
Report No. 5-388-95-006-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm, A. Gasem & Co.) for your action. The audit covered the period from July 1, 1989 to June 30, 1992 and July 1, 1993 to September 30, 1993 respectively. During these periods, MIDAS reported that it received \$670,845 and spent \$1,514,692. The background information on the contract and the project is presented on pages 1 to 3 of the report.

The audit objectives were to:

- Determine whether MIDAS Fund Accountability Statement presents fairly the expenditures incurred under the contract;
- Report on MIDAS compliance with applicable laws, regulations, and terms of the contract agreement.

The audit report concluded that:

- Except for \$76,642 in questioned costs, the Fund Accountability Statement presents fairly, in all material respects, the expenditures incurred under the contract;
- Except for five instances of noncompliance, MIDAS operations complied in all material respects with applicable laws, regulations, and terms of the contract agreement. The auditors considered these to be material instances of non-compliance.

This audit report contains five findings and recommendations resulting in \$76,642 in questioned costs.

USAID/Bangladesh 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/Bangladesh resolve \$76,642 (\$32,842 ineligible and \$43,800 unsupported) in questioned costs with MIDAS and recover any amounts determined to be unallowable.**

We appreciate the courtesies and cooperation USAID/Bangladesh and MIDAS 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

**FINANCIAL CLOSE OUT AUDIT OF THE ENTERPRISE DEVELOPMENT PROJECT  
WITH THE  
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES  
IN BANGLADESH**

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**AUDITORS' REPORT**

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Mr. Richard C. Thabet  
Regional Inspector General for Audit, Singapore  
United States Agency for International Development  
302 Orchard Road  
# 03-01 Tong Building  
Singapore 0923

January 9, 1995

Dear Mr. Thabet,

**FINANCIAL CLOSE OUT AUDIT OF THE ENTERPRISE DEVELOPMENT PROJECT  
WITH THE  
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES  
IN BANGLADESH**

---

**USAID/BANGLADESH PROJECT NO: 388-0066-A-00-6063**

This report presents the results of our financial close out audit of the Enterprise Development Project (388-0066) with the Micro Industries Development Assistance and Services (MIDAS) in Bangladesh for the period July 1, 1989 to June 30, 1992 and July 1, 1993 to September 30, 1993.

### **Background - Bangladesh**

A high rate of unemployment and underemployment, fueled by a high population growth, is a critical problem confronting the Government of Bangladesh (BDG). Unemployment at present is estimated to be between 25 and 40 percent. The BDG recognises both the magnitude of this task, and the crucial importance of successfully accomplishing it. There is little scope for generating large numbers of new (net) productive job opportunities in the public sector or in the large scale manufacturing sector. Therefore, the BDG looks primarily to small and medium scale, labour intensive enterprises such as service, construction, manufacturing and cottage industries. The United States Agency for International Development, Bangladesh ( USAID/B ) recognises this problem and the importance of creating new, net employment opportunities through the rapid growth of small and medium scale enterprises. To assist in this development, USAID/B has financed the Enterprise Development Project.

### USAID's Involvement in the Project

USAID's assistance supports the Enterprise Development Project by providing funds for a capital fund, small enterprise development and action research, staff training, technical assistance, equipment, and evaluation and monitoring. The Enterprise Development Project (EDP) (388-0066) is a 7 - year effort authorized at US\$ 8.0 million initially, subsequently amended to US \$ 7.7 million which ended September 30, 1993. USAID/B implements this project through a grant to the BDG and grants to various non-governmental organisations (NGOs), and Private Voluntary Organisations. One of these PVO's is the Micro Industries Development Assistance and Services of Bangladesh. As of September 30, 1993 USAID/B reimbursed locally US\$ 7,215,301 to MIDAS under the Cooperative Agreement No. 388-0066-A-00-6063 of which about US\$ 3,182,910 was expended in the period under review.

### Project Goal and Purpose

The goal to which this project will contribute is the development of a sound and rapidly growing small and medium business sector in Bangladesh, a sector growing at a rate wherein it can absorb a significant number of the new entrants to the labour force each year. It is recognised that attainment of this goal is an enormous challenge, and that many years will pass before it is reached. It is also recognised that the project will make only a modest contribution towards attainment of the goal.

The purpose of this project is to enhance the capability of an institution which will, on a continuing, largely self-sustaining basis:

- (a) identify exceptionally promising small and medium scale industrial opportunities;
- (b) provide financial, managerial, and/or technical assistance to entrepreneurs prepared to exploit those opportunities; and
- (c) serve as a dynamic force for growth in small and medium industry.

### MIDAS - The Organisation

MIDAS of Bangladesh was established in 1982 as a non-profit private voluntary organisation with technical and financial assistance provided by the USAID/B Rural Industries Project (388-0042). It is staffed by 85 professional and support staff located in Dhaka, Chittagong and Khulna City. Their primary objective is to promote and develop small enterprise sectors in Bangladesh for generating employment on a self-sustainable basis. They will identify exceptionally and promising small industrial opportunities; provide financial, managerial and/or technical assistance to the entrepreneurs; and serve as a potent force for growth in small and medium scale enterprises.

### Legal Status

With effect from December 30, 1992, MIDAS' legal status altered from that of a not for profit private voluntary organisation to a Limited Company incorporated under the Companies Act 1913.

### Audit Objectives and Scope of Work

We conducted a financial close out and compliance audit of the MIDAS Enterprise Development Project's Fund Accountability Statements under the Cooperative Agreement No. 388-0066-A-00-6063 for the period July 1, 1989 to June 30, 1992 and July 1, 1993 to September 30, 1993. The Fund Accountability Statements comprise the income and expenditure statement for the above periods and the notes thereon. The results of our work are reflected in the accompanying Independent Auditors' Report on the:

- (a) Fund Accountability Statement; and
- (b) Compliance with Agreement Terms, Applicable Laws and Regulations.

The objectives of our work were to determine whether :-

- (a) the Fund Accountability Statements for the MIDAS Enterprise Development Project present fairly the receipts and expenditures for the 36 - month period ended June 30, 1992 and the three month period ended September 30, 1993, in accordance with the terms of the agreement with the Agency for International Development and to identify 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) MIDAS has complied with the applicable laws, regulations and agreement terms, OMB circulars and A.I.D.'s mandatory standard provisions for non-US grantees/donees; and

The audit was conducted in accordance with generally accepted US Government Auditing Standards and, accordingly, included such tests as we considered appropriate in order to satisfy our objectives.

In addition to general audit procedures, we also performed such tests as we considered appropriate to express an opinion on the two specific areas of concern of USAID/B. We report as follows:

- (a) we have reconciled the amounts disbursed by USAID during the grant period as per the official USAID accounting records with the total amount recorded by MIDAS as having been received from USAID, and
- (b) we have also reconciled the detailed property records maintained by MIDAS to the control account as well as to the results of the annual physical verification exercise performed by MIDAS' management.

Moreover, we were continually alert, during our audit work, 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.

### Results of Audit

#### (I) Opinion on Fund Accountability Statements

We noted that expenditure totalling Taka 2,925,067 (\$ 76,642) has been questioned on the grounds that it may not be reasonable, allocable or allowable under the Cooperative Agreement (refer Appendix A-1).

In our opinion, except for the above questioned costs, the Fund Accountability Statements present fairly the financial position of MIDAS as at June 30, 1992 and September 30, 1993 as they pertain to the Enterprise Development Project as funded by USAID/B in conformity with the basis of accounting set out in note 1(b) to the Fund Accountability Statements.

**(II) 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 MIDAS and USAID/B indicated material instances of non compliance with agreement terms, applicable laws and regulations, some of which have a material financial impact on the Fund Accountability Statement. The Fund Accountability Statement, however, has not been adjusted for the financial effects of these matters, which are summarised under questioned costs in Appendix A-1.

Except for the matters noted above, our tests for compliance with agreement terms, applicable laws and regulations of selected transactions and records of MIDAS indicated that for the items tested, MIDAS complied in all material respects, with those provisions of its agreement terms as well as applicable laws and regulations, for the period under review

With respect to transactions and records not tested by us, nothing came to our attention to indicate that MIDAS has not complied with the agreement terms, applicable laws and regulations in connection with the Enterprise Development Project.

**(III) Follow-up of prior period audit recommendations**

In the course of our work, no significant or material findings and recommendations from previous audits, except for questioned costs amounting to Tk. 441,133 (\$ 11,338), were noted. The issue of such questioned costs remains unresolved upto the date of our report.

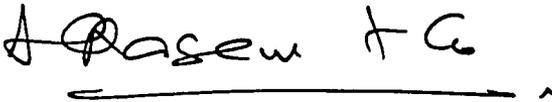
**Management Comments on Findings and Recommendations**

The management of MIDAS has principally agreed to our findings on non-compliances, set out on pages 14 to 18 and their comments have been incorporated in full therein.

MIDAS and USAID/B are currently working on a resolution for the return/settlement of the AID funds, which have been disallowed as noted in paragraph (III) on Follow-up of prior period audit recommendations.

**Acknowledgement**

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



(A. Qasem & Co.)  
Chartered Accountants

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Mr. Richard C. Thabet  
Regional Inspector General for Audit, Singapore  
United States Agency for International Development  
302 Orchard Road  
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Singapore 0923

January 9, 1995

Dear Mr. Thabet,

**ENTERPRISE DEVELOPMENT PROJECT  
WITH THE  
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES  
IN BANGLADESH**

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**USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063**

**INDEPENDENT AUDITORS' REPORT ON FUND ACCOUNTABILITY STATEMENTS**

We have audited the Fund Accountability Statements of **Micro Industries Development Assistance and Services ( MIDAS )** pertaining to the Enterprise Development Project as funded by the United States Agency for International Development, Bangladesh (USAID/B ). The periods covered by our audit were July 1, 1989 to June 30, 1992 and July 1, 1993 to September 30, 1993. These Statements, comprising the income and expenditure statement and the notes thereon, set out on pages 9 to 11, are the responsibility of MIDAS management. Our responsibility is to express an opinion on these Statements based on our audit.

We conducted our audit in accordance with generally accepted US Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statements. We believe that our audit provides a reasonable basis for our opinion.

ENTERPRISE DEVELOPMENT PROJECT  
WITH THE  
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES  
IN BANGLADESH

USAID/BANGLADESH PROJECT NO.: 388-0066-A-00-6063

INDEPENDENT AUDITORS' REPORT ON FUND ACCOUNTABILITY STATEMENTS

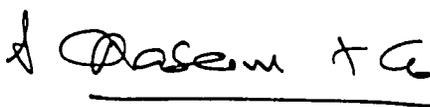
As described in note 2 to the Statements, the Fund Accountability Statements present only the transactions and balances of the Enterprise Development Project fund and are not intended to present fairly the income and expenditure and financial position of MIDAS as a whole.

Further as stated in note 1(b) to the statement, the statements are prepared on a cash receipts and disbursement basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The results of our audit disclosed that expenditure totalling Taka 2,925,067 (\$ 76,642) has been questioned on the grounds that it may not be reasonable, allocable or allowable under the Cooperative Agreement (refer Appendix A-1).

In our opinion, except for the above questioned costs, the Fund Accountability Statements present fairly in all material respects, the income and expenditure of MIDAS for the period July 1, 1989 to June 30, 1992 and July 1, 1993 to September 30, 1993 as they pertain to the Enterprise Development Project as funded by USAID/B in conformity with the basis of accounting described in note 1(b) to the Fund Accountability Statements.

This report is intended solely for the use of USAID/B 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 A.I.D Regional Inspector General for Audit/ Singapore, is a matter of public record.



(A. Qasem & Co.)  
Chartered Accountants

**ENTERPRISE DEVELOPMENT PROJECT  
WITH THE  
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES  
IN BANGLADESH**

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**USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063**

**Fund Accountability Statement**

**Statement of Receipts and Payments**

**For the periods July 1 1989 to June 30, 1992 (Period 1)  
and July 1, 1993 to September 30, 1993 (Period 2)**

	Budget US \$	Actual Period 1	Actual Period 2	Total Actual :(Period 1 & 2);	Questioned Costs	Finding Reference
		Tk.	Tk.	Tk.	Tk.	
<b>REVENUE</b>						
Service Charge	-	13,433,089	2,139,654	15,572,743		
Consultancy Fee	-	6,974,691	-	6,974,691		
Loan Application & Feasibility	-	641,689	41,892	683,581		
World Bank Publication	-	673,242	-	673,242		
MIDAS Publication	-	70,150	16,160	86,310		
<b>Total Revenue</b>	-	<b>21,792,861</b>	<b>2,197,706</b>	<b>23,990,567</b>		
<b>COSTS INCURRED</b>						
Action Research	1,156,095	43,372,787	4,048,455	47,421,242	628,069	4 & 5
Staff Training	160,000	317,284	1,641,362	1,958,646	201,848	3
Technical Assistance	170,571	-	300,000	300,000		
Equipment	152,654	2,027,380	2,879,341	4,906,721	2,095,150	1 & 2
Evaluation & Monitoring	170,097	-	-	-		
Internal Audit	87,489	-	-	-		
<b>Total Costs Incurred</b>	<b>1,896,906</b>	<b>45,717,451</b>	<b>8,869,158</b>	<b>54,586,609</b>	<b>2,925,067</b>	

The period from July 1, 1992 to June 30, 1993 was not included in our Scope of Work.

ENTERPRISE DEVELOPMENT PROJECT  
WITH THE  
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES  
IN BANGLADESH

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USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063

Fund Accountability Statement

Statement of Receipts and Payments

For the periods July 1 1989 to June 30, 1992 (Period 1)  
and July 1, 1993 to September 30, 1993 (Period 2)

	Budget US \$	Actual Period 1 Eqv. US \$	Actual Period 2 Eqv. US \$	Total Actual (Period 1 & 2) Eqv. US \$	Questioned Costs Eqv. US \$	Finding Reference
<b>REVENUE</b>						
Service Charge	-	379,398	53,875	433,273		
Consultancy Fee	-	196,990	-	196,990		
Loan Application & Feasibility	-	18,124	1,055	19,179		
World Bank Publication	-	19,015	-	19,015		
MIDAS Publication	-	1,981	407	2,388		
<b>Total Revenue</b>	-	<b>615,508</b>	<b>55,337</b>	<b>670,845</b>		
<b>COSTS INCURRED</b>						
Action Research	1,156,095	1,225,000	101,938	1,326,938	17,557	4 & 5
Staff Training	160,000	8,134	41,337	49,471	5,058	3
Technical Assistance	170,571	-	7,556	7,556		
Equipment	152,654	58,227	72,500	130,727	54,027	1 & 2
Evaluation & Monitoring	170,097	-	-	-		
Internal Audit	87,489	-	-	-		
<b>Total Costs Incurred</b>	<b>1,896,906</b>	<b>1,291,361</b>	<b>223,331</b>	<b>1,514,692</b>	<b>76,642</b>	

The period from July 1, 1992 to June 30, 1993 was not included in our Scope of Work.

MIDAS ENTERPRISE DEVELOPMENT PROJECT  
NOTES TO THE FUND ACCOUNTABILITY STATEMENTS  
FOR THE PERIOD JULY 1, 1989 TO JUNE 30, 1992  
AND  
JULY 1, 1993 TO SEPTEMBER 30, 1993

1. Significant Accounting Policies

(a) The Fund Accountability Statement expressed in Bangladesh Takas, is prepared in accordance with the historical cost convention. Bangladeshi Taka amounts have been translated to their US dollar equivalent at the average rate of exchange prevailing during the statement period, except for the following line items:

- i) Staff training
- ii) Technical assistance, and
- iii) Equipment,

which have been translated at the rates prevailing on the dates of the transactions.

(b) Income and expenditures relate to amounts received and paid respectively in cash.

2. Component unit of MIDAS

The Fund Accountability Statements present only the transactions and balances of the fund under the Cooperative Agreement No. 388-0066-A-00-6063 as funded by USAID/B and are not intended to represent the income and expenditure and financial position of MIDAS as a whole.

3. No reimbursement was claimed from USAID/B for depreciation and provision for bad debts.

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Mr. Richard C. Thabet  
Regional Inspector General for Audit, Singapore  
United States Agency for International Development  
302 Orchard Road  
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January 9, 1995

Dear Mr. Thabet,

**ENTERPRISE DEVELOPMENT PROJECT  
WITH THE  
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES  
IN BANGLADESH**

---

**USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS**

We have audited the Fund Accountability Statements of Micro Industries Development Assistance and Services ( MIDAS ) pertaining to the Enterprise Development Project as funded by the United States Agency for International Development, Bangladesh ( USAID/B ). The periods covered by our audit were July 1, 1989 to June 30, 1992 and July 1, 1993 to September 30, 1993. These Statements, comprising the income and expenditure statement and the notes thereon, as set out on pages 9 to 11 is the responsibility of MIDAS' management.

We conducted our audit in accordance with generally accepted US government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatement.

Compliance with laws, regulations and grants applicable to MIDAS is the responsibility of MIDAS' management. As part of obtaining reasonable assurance about whether the Statements are free of material misstatement, we performed tests of MIDAS' compliance with applicable laws, regulations and agreements. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of non-compliance are failure to follow requirements, or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Statements. The results of our tests of compliance disclosed the material instances of non-compliance set out on pages 14 to 18, the financial effects of which are summarised under questioned costs in Appendix A-1.

**ENTERPRISE DEVELOPMENT PROJECT  
WITH THE  
MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES  
IN BANGLADESH**

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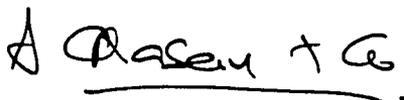
**USAID/BANGLADESH PROJECT NO. : 388-0066-A-00-6063**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS**

We considered these material instances of non-compliance in forming our opinion on whether MIDAS Fund Accountability Statements are presented fairly, and in all material respects, in accordance with the terms of the agreement and in conformity with the basis of accounting described in note 1(b) to the Fund Accountability Statement, and as a result, we have made appropriate qualifications on our report dated January 9, 1995 on those Statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, MIDAS complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that MIDAS had not complied, in all material respects, with those provisions.

This report is intended solely for the use of USAID/B, 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.



(A. Qasem & Co.)  
Chartered Accountants

1. **NON COMPLIANCE WITH STANDARD PROVISIONS IN RESPECT OF DISPOSAL OF AID FINANCED NON EXPENDABLE PROPERTY (NXP)**

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**Condition**

MIDAS disposed off two old motor vehicles for a sum of Tk. 365,100 (\$ 10,227) in January 1991. However it has not complied with the applicable Standard Provision binding on them as per the terms of the Cooperative Agreement.

**Criteria**

Optional Standard Provision entitled "Title to and use of Property (Grantee Title)" of AID Handbook 13 which forms part of the Cooperative Agreement, requires MIDAS to reimburse to AID, AID's share of the income from disposal of any item which has an appraised value of \$ 1000 or more unless the Grant Officer authorises the recipient to use AID's share of the income as program income.

**Cause**

MIDAS' management was unaware of the provision of the applicable AID Handbook.

**Effect**

MIDAS has failed to refund AID's share of income arising out of the sale proceeds and thus may have claimed excess reimbursement from USAID/B.

**Recommendation**

It is recommended that both MIDAS and USAID review the extent of non-refund and if considered appropriate, AID's share should be reimbursed.

**Management Comment**

MIDAS management was unaware of the provision. However, the omission is regretted and post facto authorization to use AID's share of the income as program income is solicited. The omission did not provide MIDAS any additional financial benefit, as the use of the sales proceeds of the vehicles as program income went to reduce the amount of USAID's grant towards MIDAS's operational deficit.

2. **ACQUISITION OF CERTAIN ITEMS WITHOUT PRIOR AID APPROVAL**  
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**Condition**

MIDAS did not obtain prior approval of USAID with regard to computers purchased. The total cost involved in respect of this non compliance is Taka 1,730,050 (\$ 43,800).

**Criteria**

Amendment 5 to the Cooperative Agreement, Attachment 1, paragraph 5a(1)(a) requires MIDAS to obtain the prior concurrence of the USAID Project Officer for the purchase of certain items including personal computers.

**Cause**

Lack of awareness of MIDAS management regarding the terms of the Cooperative Agreement appears to be responsible for this condition.

**Effect**

Non-compliance with the applicable terms and conditions regarding purchase of computers as contained in the Cooperative Agreement has resulted in questioned costs totalling Taka 1,730,050 (\$ 43,800).

**Recommendation**

USAID/B should resolve this issue with MIDAS.

**Management Comment**

The items were procured as per decisions taken in the MIDAS Performance Review Meetings held by USAID.

The original Cooperative Agreement did not provide prior concurrence of the USAID Project Officer for the purchase of computers and vehicles for MIDAS. Amendment No. 5 to the Cooperative Agreement which laid down the condition of obtaining prior concurrence of the USAID Project Officer for the purchase of three specific items including computers and vehicles was made for the purpose of initiating and establishing Business Advisory Services Center only. Therefore, MIDAS was not required to obtain prior concurrence of the USAID Project Officer for the purchase of computers and vehicles for itself.

**Auditors' Comments**

Although Amendment 5 to the Cooperative Agreement introduces an additional line item for the purposes of installing the Business Advisory Services Center (BASC), the covenants contained therein including those relating to procurement cannot be construed to be applicable only to this line item. A clear reading of the entire Amendment does not support the management's interpretation.

**3. PER DIEM CLAIMED IN RESPECT OF INTERNATIONAL TRAVEL AT VARIANCE WITH AID REGULATIONS**

**Condition**

In respect of international travel we noted that actual per diem paid to employees differed from that prescribed under AID International Per Diem Allowances Circular. The following is a summary of discrepancies noted.

Location	Per diem paid	Authorized rate	Duration (days)	Excess/(short) paid	
	(\$)	(\$)		(\$)	Tk.
Manila	49	47	120	240	9,574
Bangkok	72	53	84	1,596	63,744
Dilliman, Philippines	49	25	134	3,216	128,290
Santo Domingo	117	125	18	(144)	(5,758)
-do-	150	125	6	150	5,998
				<b>5,058</b>	<b>201,848</b>

**Criteria**

Standard Provisions entitled 'International Travel' states "The standard for determining the reasonableness of reimbursement for overseas allowances is the Standardised Regulations (Government Civilians, Foreign Areas), published by the U.S. Department of State, as from time to time amended. The most current subsistence, post differentials, and other allowances may be obtained from the Grant Officer".

**Cause**

MIDAS believed that the total amount sanctioned in the PIO/P was the governing factor. Moreover they were unaware of the AID circular informing recipients of the applicable per diem rates.

**Effect**

MIDAS has claimed excess expenditure to the extent of Tk. 201,848 (\$ 5,058).

**Recommendation**

MIDAS should resolve the matter with USAID, and repay any amount determined to be unallowable

**Management Comment**

MIDAS paid per diem at the rate obtained over telephone from the Training Section of USAID, as no AID circular in this regard was available with MIDAS. The objection may, therefore be dropped.

4. BANK INTEREST EARNED NOT FULLY REFUNDED TO USAID  
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**Condition**

During the period under review MIDAS earned Tk. 155,482 (\$ 3,916) as bank interest on USAID funds. The amount due to be refunded to USAID works out to Taka 140,036 (\$ 3,527) after retaining the Taka equivalent of \$ 100 each year for administrative expenses. However, MIDAS refunded only Taka 61,630 (\$ 1,552)

**Criteria**

Amendment 3, Attachment 1, paragraph 3 of the Cooperative Agreement requires the recipient of AID funds to remit to USAID once each quarter the interest earned on advances of such funds after retaining upto \$ 100 each year to meet administrative expenses.

**Cause**

In computing the amount to be refunded to USAID, MIDAS has deducted from the interest earned all bank charges and levies, and at the same time has retained the taka equivalent of \$ 100 each year.

**Effect**

Non-compliance with the Agreement terms, arising out of erroneous calculation has resulted in excess retention of Tk. 78,406 (\$ 1,975) which is potentially refundable.

**Recommendation**

MIDAS should resolve the matter with USAID, and repay the amount determined to be refundable.

**Management Comment**

The period of "each year" having been mistaken for each semester, the Taka equivalent of US \$ 100 was deducted from each refund. The mistake was inadvertent.

5. OTHER QUESTIONED COSTS  
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Condition

During the course of our audit we came across certain other costs which were considered "questioned costs". The details of these questioned costs totalling Taka 549,663 (\$ 15,582) are set out in Appendix A-2.

Criteria

OMB Circular A-122, Attachment B Paragraph 12 on "Entertainment Costs" renders the costs associated with providing meals, amusements, social activities and ceremonials as unallowable; furthermore paragraph 37(c) of the same circular disallows printing and publication as a direct cost except with the prior approval of the awarding agency.

Cause

The management of MIDAS appears to have overlooked the provisions of the OMB Circular A-122.

Effect

This non-compliance has resulted in questioned costs amounting to Taka 549,663 (\$ 15,582).

Recommendation

MIDAS is potentially liable to repay such amounts as may be determined by USAID to be unallowable.

Management Comment

The cost of office tea, entertainment, visiting cards and annual picnic of the employees of MIDAS were considered part and parcel of the cost of managing the loan equity fund and was authorised as such by the management.

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**SUMMARY OF DISALLOWANCES**

**APPENDIX - A-1**

**A. Summary of Questioned Costs**

Finding #	Basis of questioning	Amount Tk.	Eqv. \$	Condition
2	Allowability: Not allowed except with prior approval from AID	1,730,050	43,800	Purchase of one Tandon computer and Compaq computers without prior approval from AID.
3	Reasonableness: Not in accordance with AID Standard Provisions	201,848	5,058	Per diem paid in excess of USAID prescribed rates
5	Allowability: Costs disallowed by OMB Circular A-122	549,663	15,582	Unallowable expenses incurred for office tea, entertainment, printing of visiting cards etc. (App. A-3)
	Sub-Total	2,481,561	64,440	

**B. Summary of Potential Refund Claims**

Finding #	Basis of claim	Amount Tk.	Eqv. \$	Condition
1	Refundable as per the Standard Provisions on Title to Property	385,100	10,227	Proceeds on disposal of AID funded vehicles not refunded to AID
4	Refundable as per terms of the Coop Agreement	78,406	1,975	Bank interest not refunded to AID
	Sub-Total	443,506	12,202	
	Grand Total (A + B)	2,925,067	76,642	

**OTHER QUESTIONED COSTS**

**APPENDIX A-2**

Nature of cost	1989-90	1990-91	1991-92	1993	Total
	Taka	Taka	Taka	Taka	Taka
Cost of Tea	51,791	72,633	75,941	10,000	210,365
Picnic, farewell etc.	54,987	88,715	66,893	-	210,595
Entertainment	74,128	24,615	13,750	-	112,493
Printing of Visiting Cards	4,650	7,200	4,360	-	16,210
	Taka: 185,556	193,163	160,944	10,000	549,663
	\$ 5,538	5,478	4,314	252	15,582

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