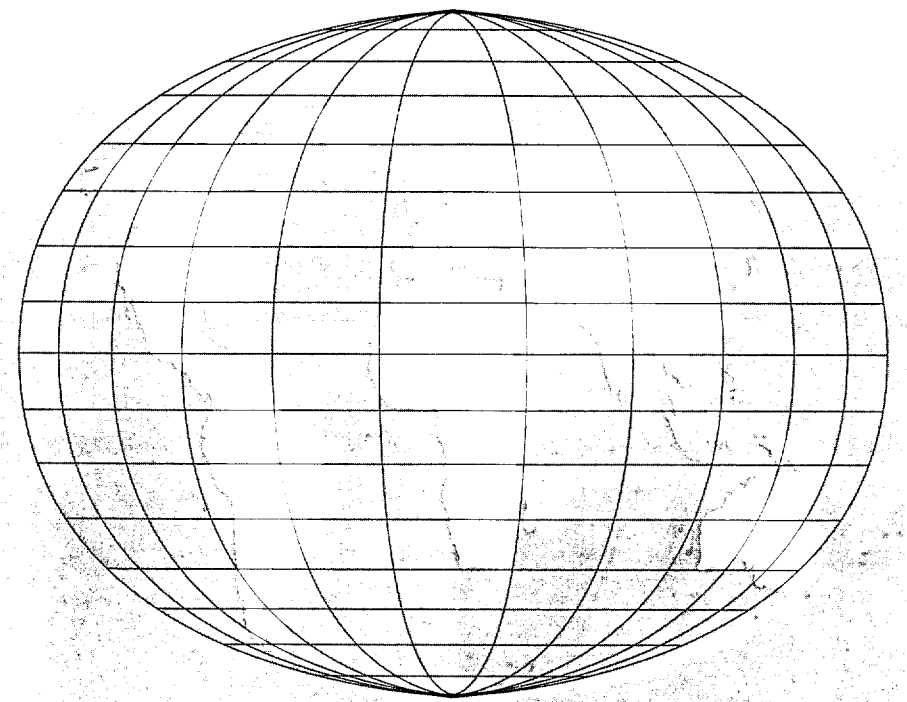
Report of Audit

Regional Inspector General/Bangkok

Audit of the Indirect Costs for USAID's Cooperative Agreements with the International Centre for Diarrhoeal Disease Research in Bangladesh for the years 1989 through 1993

Audit Report No. 5-388-96-008-N
September 23, 1996



FINANCIAL INFORMATION IN THIS REPORT MAY BE PRIVILEGED.
THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED
BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
37 PETCHBURI SOI 15
BANGKOK 10400
THAILAND

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

September 23, 1996

MEMORANDUM

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

FROM: Bruce M. Watts, RIG/Bangkok Bruce M. Watts

SUBJECT: Audit of the Indirect Costs for USAID's Cooperative Agreements with the International Centre for Diarrhoeal Disease Research in Bangladesh for the years 1989 through 1993
Audit Report No. 5-388-96-008-N

Enclosed are five copies of the subject audit report prepared by the accounting firm ACNABIN & Co. for your information. The audit covered various periods ending December 31, 1993.

The principal objectives of the audit were (1) to determine whether the indirect cost rate submission by the International Centre for Diarrhoeal Disease Research in Bangladesh for the years 1989 through 1993 reflected an accurate and appropriate classification of costs in accordance with the terms of the Cooperative Agreements with USAID, and (2) 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 agreements and OMB Circular A-122.

The auditors concluded that indirect cost reimbursements of $715,181 had been overpaid to the International Centre for Diarrhoeal Disease Research in Bangladesh for the abovementioned periods. Therefore, we are making one recommendation to be included in the Agency's Central Audit Tracking System.

Recommendation No. 1 : We recommend that USAID/Bangladesh resolve the questioned costs of $715,181 (all ineligible) and recover any unallowable amount due.

We appreciate the courtesies and cooperation that USAID/Bangladesh and the International Centre for Diarrhoeal Disease Research In Bangladesh 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 resolve the above recommendation.

Attachment: a/s

U.S. MAILING ADDRESS
C/O U.S. EMBASSY
BOX 47
APO AP 96546-7200

TELEPHONE
66-2-253-3739
FAX
66-2-255-4857

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH IN BANGLADESH

AUDIT OF THE INDIRECT COST RATES

SUPPORT OF USAID/BANGLADESH
MATERNAL AND CHILD HEALTH - FAMILY PLANNING
EXTENSION PROJECT CA # ANE-0071-A-00-7058
MATERNAL AND CHILD HEALTH AND FAMILY PLANNING
EXTENSION PROJECT CA # ANE-0071-A-00-3016
URBAN VOLUNTEER PROJECT CA # ANE-0073-A-00-6081
URBAN HEALTH EXTEN. PROJECT CA # ANE-0073-A-00-1054
FROM JANUARY 1989 TO DECEMBER 1993

&

SUPPORT OF USAID/WASHINGTON
PROJECT DEVELOPMENT, TARGETED RESEARCH, TARGETED
INSTITUTIONAL LINKAGE, TARGETED RESOURCE DEVELOPMENT
STRATEGY AND CORE ACTIVITIES CA # DPE-5986-A-00-1009
FROM JANUARY 1991 TO DECEMBER 1993

INDEPENDENT AUDITORS' REPORT

ACNABIN & Co. *Chartered Accountants*

National Scout Bhaban (13th Floor), 70/1, Inner Circular Road Kakrail
Dhaka-1000, Bangladesh. Telephone: 835101-2, Fax: 880-2 835826

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TRANSMITTAL LETTER

আকনাবীন এন্ড কোং
ACNABIN & Co.
Chartered Accountants

National Scout Bhaban (13th Floor)
70/1 Inner Circular Road, Kakrail
Dhaka-1000, Bangladesh

Regional Inspector General for Audit
U.S. Agency for International Development
Bangkok

August 29, 1996

Dear Sir,

This report presents the results of our financial audit for the review of the Indirect Cost (Overhead) Rates proposed by the International Centre for Diarrhoeal Disease Research in Bangladesh (ICDDR,B) under its USAID funded Cooperative Agreements # ANE-0071-A-00-7058, ANE-0071-A-00-3016, ANE-0073-A-00-6081, ANE-0073-A-00-1054, and DPE-5986-A-00-1009 for the periods from January 1989 through December 31, 1993.

BACKGROUND

ICDDR,B was established on December 6, 1978 by an Ordinance passed by the Government of People's Republic of Bangladesh as 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.

USAID has been a major contributor of funds to ICDDR,B operation. During the audit period USAID has provided funds to operate the Maternal and Child Health - Family Planning Extension Project (MCH-FP), Maternal and Child Health and Family Planning Extension Project (MCHFP), Urban Volunteers Project (UVP) and Urban Health Extension Project (UHEP), and Project Development, Targeted Research, Targeted Institutional Linkage, Targeted Resource Development Strategy and Core Activities under the above CAs.

The CA # ANE-0071-A-00-7058 started in September 1987 and expired in March 1993, the CA # ANE-0071-A-00-3016 started in April 1993 and is scheduled to expire in July 1997, the CA # ANE-0073-A-00-6081 started in September 1986 and expired in March 1992, the CA # ANE-0073-A-00-1054 started in April 1992 and expired in September 1994 and the CA # DPE-5986-A-00-1009 started in January 1991 and expired in December 1995.

ABM Azizuddin, **FCA** Quazi Ahmeduzzaman, **FCA** Iftekhar Hossain, **FCA** Atma Bari, **FCA** Mohammad Nurun Nabi, **FCA**

Telephone : 835101, 835102, Telex : 642863 KLTD BJ, Fax : 880-2-835826, 863774

Non-federal audit of MCH-FP and UVP Project accounts (CAs # ANE-0071-A-00-7058 and ANE-0073-A-00-6081) was conducted by ACNABIN & Co., Bangladesh in 1994 for the period from start of the CAs upto December 31, 1991. Recipient contracted audits for the USAID-funded co-operative agreements were performed by Deloitte Haskins and Sells, Calcutta, India for the years 1992, 1993 and 1994 and by ACNABIN & Co., Bangladesh for the year 1995.

Indirect Costs for ICDDR,B were comprehensively audited in 1991 under report # 5-388-91-04-N by Price Waterhouse, Calcutta, India. This report covered the years 1982 through 1988. After the non-federal and RCA audits for the years 1992 and 1993 were conducted, RIG/A Singapore felt the need to conduct an Indirect Cost audit of all the USAID-funded CAs and to provide a basis for a final organizational rate for the years 1989 through 1993.

It was reported that ICDDR,B had never submitted Indirect Cost (overhead) rate proposals with supporting documentation to USAID/B for review and approval in terms of the grant agreements and OMB Circular A-122 for the years 1989 through 1993, though they had submitted draft Indirect Cost rate proposals for the years 1989 through 1991 for CAs # ANE-0071-A-00-7058 and ANE-0073-A-00-6081 to ACNABIN during the course of their non-federal audit in 1994. Since the draft Indirect Cost rate proposals submitted were subject to some major observations by ACNABIN and RIG/A/S, particularly concerning the Cost allocations and the basis of the calculations, a series of discussions among RIG/A/S, USAID/B, ICDDR,B and ACNABIN took place with a view to resolve the problem and arrive at an acceptable basis for cost allocations and calculation of Indirect Cost rates of ICDDR,B. Finally, on June 12, 1995 ICDDR,B (Mr. Kenneth J.J.Tipping and Mr. M. Hasan), came up with a draft proposal for computation of Indirect Cost rates for the years 1989 through 1993 (in page 12) in their meeting with RIG/A/S (Mr. Thomas Egan), USAID/Bangladesh (Mr.F.Karim) and ACNABIN (Mr.ABM Azizuddin) at Hotel Sheraton, Dhaka. After a long discussion in the meeting, no agreement could be reached as to whether the ICDDR,B draft submission would be accepted or not. The meeting, however, ended with a decision that RIG/A/S will examine the same and give necessary advice in this respect as soon as possible. Subsequently, RIG/A/S accepted the ICDDR,B draft submission with some observations and advised ACNABIN to proceed with the audit accordingly.

As the audit progressed, ICDDR,B advised ACNABIN to ignore the above draft submission, and submitted on July 17, 1995 two separate sets of Indirect Cost rate proposals for the years January 1989 through December 1993 (Exhibits 4 and 5) after a series of discussions with ACNABIN and Deloitte Haskins (RCA Auditors of ICDDR,B for 1994). One proposal was for the USAID/B CAs # ANE-0071-A-00-7058, ANE-0071-A-00-3016, ANE-0073-A-00-6081 and ANE-0073-A-00-1054 and another for the USAID/W CA # DPE-5986-A-00-1009.

Initially ACNABIN accepted the later ICDDR,B proposal of July 17, 1995 and carried out the audit and submitted a draft report to RIG/A/S on July 24, 1995, for their review and approval. However, RIG/A/S did not accept the above report being based on the later submission of ICDDR,B, and instead advised ACNABIN to carry out the audit and submit their report on the basis of the earlier ICDDR,B submission of June 12, 1995. Accordingly, ACNABIN has carried out the audit and prepared this enclosed report. It may be mentioned that during this re-audit work ICDDR,B was requested by ACNABIN to make a final submission of their Indirect Cost rate calculations in the format used in their draft submission of June 12, 1995. At this, ICDDR,B commented that though they saw some merit in changing the basis for overhead calculation, they considered that it would only be possible to apply it to future USAID Agreements. They added that the current USAID agreements were reasonably specific as to calculation and apportionment of cost and must be followed unless there is an amendment to change the basis of calculation and retroactively apply it back to 1989. Accordingly, they requested ACNABIN to follow their later submission of July 17, 1995 for the CAs under audit.

However, following the instruction of RIG/A/S ACNABIN have carried out the audit on the basis of ICDDR,B draft submission of June 12, 1995, and presented the enclosed report.

AUDIT OBJECTIVES AND SCOPE

A financial audit was performed in accordance with generally accepted auditing standards promulgated by the AICPA and the US Government Auditing Standards set out in the US General Accounting Office's "Yellow Book" entitled 'Standards for Audit of Government Organization, Programs, Activities and Functions' (1988 revision). The audit included appropriate tests to determine if the criteria for accepting the overhead rates and the overhead cost pools were being properly accounted for and were in compliance with the Cooperative Agreements and OMB Circular A-122 or the laws of Bangladesh.

The principal objectives of the audit were to determine whether the Indirect Cost (overhead) rate submission by ICDDR,B for years 1989 through 1993 reflected an accurate and appropriate classification of costs in accordance with the terms of the Cooperative Agreements with the Agency for International Development (AID) and identify any costs which were not fully supported with adequate records or which were not allocable, reasonable or allowable under the terms of the agreements and OMB Circular A-122.

RESULTS OF THE AUDIT

Indirect Cost Rate Submission

The scope of our work was limited to review and test of the detailed statements and underlying documentation in support of overhead claims presented by ICDDR,B. Our work also included a review of audited annual accounts of ICDDR,B for the relevant periods and audit reports of Deloitte Haskins and ACNABIN relating to the RCA and non-Federal Audits carried out by them for the relevant periods.

Our examination revealed that :

(a) Capital expenditures to the extent of US$133,710 were included in the Indirect Cost amounts because of exclusion of excess capital expenditures to that extent in the Direct Project Cost calculation.

(b) Depreciation charges amounting to US$125,230 were included in the Direct Project Costs.

(c) Overhead recovered amount to the extent of US$151,184 was included in the Indirect Cost amount because of the excess overhead recovered amount deducted in the Direct Project Cost calculation.

(d) Overhead recovered amounting to US$433,477 (US$370,740 & US$ 62,737) relating to periods 1982 to 1988 was included in the Direct Project Cost, in contrary to the accrual basis of accounting otherwise followed in the ICDDR,B draft submission.

(e) Unallowable costs (namely, Bad Debts, Costs Unallowed by RIG/A/S, Entertainment Expenses and Interest on Bank Overdraft) to the extent of US$182,715 and US$624 were included in the Indirect Cost and Direct Project Cost amounts respectively.

(f) Depreciation on funded assets amounting to US$2,107,779 was included in the Indirect Costs amounts.

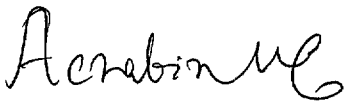
Except for our findings in (a) to (f) above and also except for the effects arising due to the adjustments therefor, the draft Indirect Cost rate submissions by ICDDR,B reflect an accurate and appropriate classification of costs for the years 1989 through 1993, which is based on the premise that ICDDR,B is a not for profit organization and that, in essence, overhead is seen to be the total of all revenue costs less donor contributions, other applicable income and depreciation on donor funded capital assets.

On the basis of tests carried out during the course of the audit and the books and records produced and in the light of our findings, the overhead/indirect cost rates have been recomputed in Exhibit-1 of this report. Actual overhead/indirect cost amounts have been calculated in Exhibit-2 on the basis of the recommended rates, resulting in an ***overdrawn amount of US$715,181*** refundable by ICDDR,B on account of overdraft/indirect costs under the USAID/B and USAID/W CAs at the end of the audit period on December 31, 1993.

ICDDR,B MANAGEMENT COMMENTS

Management response is given in Appendix (Page 34-38).

Yours Truly,



ACNABIN & Co.
Chartered Accountants

INDEPENDENT AUDITORS' REPORT
ON
THE INDIRECT COST RATES SUBMISSION

আকনাবীন এন্ড কোং
ACNABIN & Co.
Chartered Accountants

National Scout Bhaban (13th Floor)
70/1 Inner Circular Road, Kakrail
Dhaka-1000, Bangladesh

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE
RESEARCH IN BANGLADESH

SUPPORT OF USAID/BANGLADESH

Maternal and Child Health - Family Planning Extension Project (MCH-FP) CA # ANE-0071-A-00-7058, Maternal and Child Health and Family Planning Extension Project (MCHFP) CA # ANE-0071-A-00-3016, Urban Volunteers Project (UVP) CA # ANE-0073-A-00-6081, Urban Health Extension Project (UHEP)CA # ANE-0073-A-00-1054

and

SUPPORT OF USAID/WASHINGTON

Project Development, Targeted Research, Targeted Institutional Linkage, Targeted Resource Development Strategy and Core Activities CA # DPE-5986-A-00-1009

Regional Inspector General For Audit
U.S.Agency For International Development
Bangkok

INDEPENDENT AUDITORS' REPORT ON THE INDIRECT COST RATES SUBMISSION

1. We have audited the accompanying Draft Indirect Cost (Overhead) Rates submission for the financial years 1989 through 1993 of the International Centre for diarrhoeal Disease Research in Bangladesh (ICDDR,B) in support of USAID/Bangladesh (USAID/B)'s CAs # ANE-0071-A-00-7058, ANE-0071-A-00-3016, ANE-0073-A-00-6081 and ANE-0073-A-00-1054 and USAID/Washington (USAID/W)'s CA # DPE-5986-A-00-1009 as given in Page 12 in this report. The scope of our work was limited to review and test of the detailed statements and underlying documentation, to the extent made available for this audit, in support of draft overhead rates submission made by ICCDR,B to us during our audit. Our work also included a review of the audited financial statements of ICDDR,B for the relevant period, so far it relates to the computation of indirect cost rates.

ABM Azizuddin, **FCA** Quazi Ahmeduzzaman, **FCA** Iftekhar Hossain,**FCA** Atma Bari, **FCA** Mohammad Nurun Nabi, **FCA**

Telephone : 835101, 835102, Telex : 642863 KLTD BJ, Fax : 880-2-835826, 863774

2. Our audit was made in accordance with generally accepted auditing standards and the U.S.General Accounting Office's 'Standards for Audit of Government Organizations, Programs, Activities and Functions' (1988 Revision), and accordingly included such tests of the accounting and related records and such other auditing procedures as we considered necessary under the circumstances.

3. In our opinion, except for our observations set out in Findings 1 to 6 of this report and the effects thereof, the draft Indirect Cost rates submission by ICDDR,B reflects an accurate and appropriate classification of costs for the years 1989 through 1993. On the basis of our findings, the Indirect Cost rates have been recomputed in Exhibit-1 accompanying this report.

4. As part of our examination, we identified US$2,575,388 and US$274,437 as net unallowable costs and to be excluded from Indirect Cost and Direct Project Cost amounts respectively for the purpose of Indirect Cost rates calculation for the four USAID/B cooperative agreements and the USAID/W cooperative agreement [see Findings 1 to 6 of this report].

5. This report is intended solely for the use of ICDDR,B and USAID. This restriction is not intended to limit distribution of this report which, upon acceptance by the AID Office of the Inspector General, is a matter of public record.

Acnabin & Co.

ACNABIN & Co.
Chartered Accountants

Dhaka : August 29, 1996

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH, BANGLADESH
SUPPORT OF USAID/BANGLADESH

Maternal and Child Health-Family Planning Extension Project C.A. # ANE-0071-A-00-7058
Maternal and Child Health & Family Planning Extension Project C.A. # ANE-0071-A-00-3016
Urban Volunteer Project C.A. # ANE-0073-A-00-6081
Urban Health Extension Project C.A. # ANE-0073-A-00-1054
AND
Project Development, Targeted Research, Targeted Institutional Linkage, Targeted Resource Development Strategy & Core Activities C.A. # DPE-5986-A-00-1009 (Washington Agreement)

DRAFT
COMPUTATION OF INDIRECT COST RATES - Submitted by ICDDR,B

	1989 US$	1990 US$	1991 US$	1992 US$	1993 US$
Project Revenue per Audited Accounts	9,924,955	6,055,951	7,128,405	5,478,447	5,664,770
Less : Capital Expenditure	(912,310)	(309,777)	(629,763)	(235,031)	(176,460)
Overhead Recovered	(1,548,000)	(944,075)	(1,290,846)	(729,549)	(728,847)
Adjustment relate to prior year O/H	0	0	370,740	62,737	0
DIRECT PROJECT COST	7,464,645	4,802,099	5,578,536	4,576,604	4,759,463
CORE OPERATING COST	4,871,617	4,647,757	4,355,579	6,009,070	6,776,807
Less: Core Contribution	(1,872,800)	(2,865,712)	(3,220,515)	(4,048,563)	(4,505,724)
Other Receipts	(318,892)	(318,492)	(638,701)	(505,316)	(748,183)
	2,679,925	1,463,553	496,363	1,455,191	1,522,900
ACTUAL OVERHEAD RATE	35.90 %	30.48 %	8.90 %	31.80 %	32.00 %
Less : Overhead Recovered	(1,548,000)	(944,075)	(920,106)	(666,812)	(728,847)
Deficit/(Surplus)	1,131,925	519,478	(423,743)	788,379	794,053
Less : Exchange Gain	(53,807)	(135,153)	(23,479)	(102,467)	(37,990)
Audited Deficit/(Surplus)	1,078,118	384,325	(447,222)	685,912	756,063
Under Recovery	15.16 %	10.82 %	-7.6 %	17.23 %	25.37 %

NOTES TO THE DRAFT INDIRECT COST (OVERHEAD) RATES SUBMITTED BY ICDDR,B FOR CAs # ANE-0071-A-00-7058, ANE-0071-A-00-3016, ANE-0073-A-00-6081, ANE-0073-A-00-1054 AND DPE-5986-A-00-1009 FOR THE PERIOD FROM JANUARY 1989 TO DECEMBER 1993

No notes to the draft Indirect Cost rates submission have been given by the ICDDR,B. However, on the basis of our discussion with them and examination of their submission and accounting records, we establish that the following bases have been followed in the submission made by ICDDR,B :

1. For the purpose of the overhead rates calculation, ICDDR,B has divided their total revenue costs into two categories :

   a. Direct Project Cost, which includes the costs (excluding capital expenditures and overhead of all projects and also excluding core expenditure of core operating project financed under USAID/W CA # DPE-5986-A-00-1009) attributable to all the ICDDR,B projects (not core) funded by various donors.

   b. Core Operating Costs, which includes the costs (as reduced by core contributions from various donors and other applicable receipts) attributable to the rest of the ICDDR,B activities (i.e. other than Direct Project Costs as above). These costs are effectively incurred for core activities not only to run the ICDDR,B normal operations, but also to facilitate the various ICDDR,B projects.

2. The Core Operating Cost as defined above has been taken to be the same as Indirect Costs (i.e. overhead) while calculating the Indirect Cost rates.

3. The Indirect Cost Calculation has been done on an accrual basis. As such, the costs and revenue amounts incorporated in the draft submission are based on accrual concept.

4. Adjustment relate to prior year overhead is regarding overhead contribution received from USAID for projects related to the period from 1982 to 1988.

5. Actual Overhead Rates have been derived as percentages of the Direct Project Costs for the respective year.

Finding-1

EXCLUSION OF INACCURATE CAPITAL EXPENDITURE AMOUNTS IN DIRECT PROJECT COST CALCULATIONS

Condition

In order to arrive at the Direct Project Cost, ICDDR,B followed a correct policy of deducting, inter alia, related capital expenditures from the Project Revenue for the relevant years. However, such capital expenditures deducted for the years 1989, 1990 and 1991 were found to be inaccurate. As a system ICDDR,B generates Final Cost Reports recording expenditures by budget centre and Trial Balances by accounts code. From checking of the available Final Cost Reports and Trial Balances it was found that the Project Revenue per audited accounts included capital expenditures different from that reflected in the ICDDR,B draft submission in Page 12, as stated below :

	1989 US$	1990 US$	1991 US$	Total US$
Capital Expenditures :				
As per ICDDR,B draft submission	912,310	309,777	629,768	1,851,855
Less :				
as per Trial Balance	-	196,990	497,685	694,675
as per Final Cost Report (Year-end Trial Balance was not available)	1,023,470	-	-	1,023,470
Excess/(short) capital expenditure excluded in ICDDR,B draft submission	(111,160)	112,787	132,083	133,710

Since the ICDDR,B draft submission arrived at the Core Operating Costs by deducting the Direct Project Cost (as calculated in the draft submission) from the total expenditures (including depreciation) per Audited Accounts, the Core Operating Cost (i.e overhead costs) thus calculated has been inflated or deflated by the excess or short exclusion of capital expenditures as above.

Criteria

a. Proper accounting requires that the calculation should be free from accounting errors, otherwise it may result in under or over recovery of overheads.

b. OMB Circular # A-122 (Attachment A, Section D) and generally accepted accounting principles require the use of a distribution base and computation method which results in an equitable distribution and recovery rate. Since the Direct Project Cost is to be used as the base for computing the overhead recovery rate, it is important that the Direct Project Cost calculated is true and fair.

Cause

Since the draft submission was hastily prepared, primarily to arrive at a consensus on the approach and format to be used for computing the overhead costs and rates thereof,ICDDR,B under-emphasized the accuracy of the figures as such. In addition, since ICDDR,B asked ACNABIN to ignore their draft submission and came out with a new submission (as in Exhibit 4 & 5) following a different approach and format (more in line with the submissions for the earlier years), ICDDR,B did not recheck the figures of their draft submission in Page 12.

Effect

a. The overhead rate calculated in the ICDDR,B draft submission may have been deflated due to exclusion of short capital expenditure for calculation of Direct Project Cost for 1989.

b. The overhead rates calculated in the ICDDR,B draft submission may have been inflated due to exclusion of excess capital expenditure for calculation of Direct Project Costs for 1990 and 1991.

Recommendation

We recommend that the correct capital expenditures, as referred to above, should be excluded from the Project Revenue in order to calculate the Direct Project Cost for the years 1989, 1990 and 1991 and the Core Operating Cost should be adjusted accordingly, as have been considered in our recalculation in Exhibit-1.

Finding-2

INCLUSION OF DEPRECIATION IN DIRECT PROJECT COST

Condition

The ICDDR,B submission includes some depreciation charges in the Project Revenue which have not been excluded while calculating the Direct Project Costs. These depreciation charges are as follows :

	1989 US$	1990 US$	1991 US$	1992 US$	1993 US$	Total US$
Depreciation	49,165	43,851	19,490	6,304	6,420	125,230

Criteria

In principle since the capital expenditures of the projects are financed by donors, Direct Project Costs should not include any depreciation charge. And the depreciation charges on unfunded assets may be included as a part of overhead cost.

Cause

Primary reason for inclusion of above depreciation charge is that ICDDR,B did not thoroughly check the detailed break-up of the Project Revenue as given in their draft submission. They simply deducted the capital expenditure and overhead figures from the Project Revenue amounts in order to arrive at Direct Project Cost.

Effect

The overhead rate calculated in the ICDDR,B draft submission may have been deflated due to inclusion of above depreciation charges in the Direct Project Cost.

Recommendation

We recommend that the depreciation charges, as referred to above, should be excluded from the Direct Project Cost used as a base to calculate Indirect Cost rate, as have been considered in our recalculation in Exhibit-1.

Finding-3

EXCLUSION OF INACCURATE OVERHEAD RECOVERED AMOUNT IN CALCULATION OF DIRECT PROJECT COST

Condition

In order to arrive at the Direct Project Cost, ICDDR,B followed a correct policy of deducting, inter alia, related overhead recoveries from the Project Revenues for the relevant years. However, such overhead recoveries deducted for the year 1989 was found to be inaccurate. The overhead recovered amount deducted in the ICDDR,B draft submission was US$1,548,000 whereas the correct figure should have been US$1,396,816. As a result an excess amount of US$151,184 was deducted from the Project Revenue amount while computing the Direct Project Cost amount for 1989.

Since the ICDDR,B draft submission arrived at the Core Operating Costs by deducting the Direct Project Cost (as calculated in the draft submission) from the total expenditures (including depreciation) per Audited Accounts, the Core Operating Cost (i.e overhead costs) thus calculated has been inflated by the excess exclusion of overhead recovered as above.

Criteria

a. Proper accounting requires that the calculation should be free from accounting errors, otherwise it may result in under or over recovery of overheads.

b. OMB Circular # A-122 (Attachment A, Section D) and generally accepted accounting principles require the use of a distribution base and computation method which results in an equitable distribution and recovery rate. Since the Direct Project Cost is to be used as the base for computing the overhead recovery rate, it is important that the Direct Project Cost calculated is true and fair.

Cause

Since the draft submission was hastily prepared, primarily to arrive at a consensus on the approach and format to be used for computing the overhead costs and rates thereof, ICDDR,B under-emphasized the accuracy of the figures as such. In addition, since ICDDR,B asked ACNABIN to ignore their draft submission and came out with a new submission (as in Exhibit-4 & 5) following a different approach and format (more in line with the submissions for the earlier years), ICDDR,B did not recheck the figures of their draft submission in Page-12.

Effect

The overhead rates calculated in the ICDDR,B draft submission may have been inflated due to exclusion of excess overhead recovered for calculation of Direct Project Costs for 1989.

Recommendation

We recommend that the correct overhead recovered, as referred to above, should be excluded from the Project Revenue in order to calculate the Direct Project Cost for the year 1989 and the Core Operating Cost should be adjusted accordingly, as have been considered in our recalculation in Exhibit-1.

Finding-4

INAPPROPRIATE ADJUSTMENT FOR PRIOR YEAR OVERHEADS RECEIVED

Condition

Though the draft submission has been prepared by ICDDR,B on accrual basis, ICDDR,B has made erroneous adjustments relating to prior years (prior to 1989) overheads received in 1991 and 1992. The prior years overheads of US$370,740 and US$62,737 received in 1991 and 1992 respectively were included in the Project Revenue figures and also in the overhead recovery figures deducted from the Project Revenue, thus effectively excluding the prior years overheads from the calculation at that stage. But subsequently the ICDDR,B draft submission includes an adjustment for the prior years overhead of the above amounts in the years of receipt (i.e. 1991 and 1992), thus wrongly inflating the Direct Project Cost for the years 1991 and 1992 by US$370,740 and US$62,737 respectively.

Criteria

As per internationally recognized accounting practice, one of the fundamental accounting assumptions for the preparation of accounts is accrual basis and another fundamental accounting assumption is consistency. In addition, as per OMB-122 (Attachment-A, Section-A, Para-2.D), costs must be accorded consistent treatment in order to be allowed under an award.

Cause

Since the draft submission was hastily prepared, primarily to arrive at a consensus on the approach and format to be used for computing the overhead costs and rates thereof,ICDDR,B under-emphasized the accuracy of the figures as such. In addition, since ICDDR,B asked ACNABIN to ignore their draft submission and came out with a new submission (as in Exhibit 4 & 5) following a different approach and format (more in line with the submissions for the earlier years), ICDDR,B did not recheck the figures of their draft submission in Page-12.

Effect

The overhead rate calculated in the ICDDR,B draft submission may have been deflated due to inclusion of prior years overhead receipts for calculation of Direct Project Costs for 1991 and 1992.

Recommendation

We recommend that the prior year overhead cost received in 1991 and 1992 as referred to above should be excluded from the Direct Project Cost in the overhead cost rate computation, as have been considered in our recalculation in Exhibit-1.

Finding-5

INCLUSION OF UNALLOWABLE COSTS IN THE ICDDR,B SUBMISSION

Condition

The ICDDR,B draft submission includes the following unallowable costs :

Particulars	Direct Project Cost/ Core Operating Cost	Year 1989 US$	1990 US$	1991 US$	1992 US$	1993 US$	Total US$
1. Bad debts (ICDDR,B JV # 01066 dt.23.12.93, # 01380 dt.31.12.91 and # 01395 dt.31.12.91)	Core Operating Cost :						
	Director's Office	-	-	20,405	-	2,490	22,895
2. Costs unallowed by RIG/A/Singapore and refunds given by ICDDR,B (ICDDR,B DV # 000905 dt. 16.3.94 and # 1300 dt. 18.4.95).	Direct Project Cost :						
	CHD	-	-	-	550	-	
	PSED	-		-	74	-	
					624		624
	Core Operating Cost : Director's Office	-	-	-	-	1,025	1,025
3. Entertainment expenses	Core Operating Cost	11,165	15,114	17,806	23,710	9,640	77,435
4. Interest on bank overdraft	Core Operating Cost	68,708	11,727	719	206	-	81,360
		79,873	26,841	38,930	24,540	13,155	183,339

Criteria

OMB Circular A-122 "Cost Principles for Non-Profit Organizations" lays down that :

a. The total cost of an award is the sum of the allowable direct and allocable Indirect costs less any applicable credits. (Attachment A, Section A, Paragraph 1).

b. Bad debts, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs and related legal costs are unallowable (Attachment B, Paragraph 2).

c. Any excess of costs over income on any award is unallowable as a cost of any other award (Attachment B, Paragraph 21).

d. Entertainment costs - costs of amusements, diversion, social activities, ceremonials and cost relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable (Attachment B, Paragraph 12).

e. Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented are unallowable (Attachment B, Paragraph 19a).

Cause

ICDDR,B was not clear about the criteria given above.

Effect

The overhead rates in the ICDDR,B submission may have been somewhat inflated or pushed up, though not significantly.

Recommendation

We recommend that the unallowable costs, as referred to above, should not be included, either as Direct Project Cost or Core Operating Cost in the overhead rate calculations, as have been considered in our recalculation in Exhibit-1.

Finding-6

INCLUSION OF DEPRECIATION CHARGES ON FUNDED ASSETS IN CORE OPERATING COST

Condition

ICDDR,B has included the entire depreciation charges for the year in Core Operating Cost. As such Core Operating Costs include depreciation charges for both funded and unfunded assets. The depreciation charges for funded assets thus included are as follows:

	1989 US$	1990 US$	1991 US$	1992 US$	1993 US$	Total US$
Depreciation as per audited accounts	1,045,288	865,041	568,772	703,979	706,095	3,889,175
Less : Depreciation on unfunded assets	642,220	437,088	199,005	226,933	276,150	1,781,396
Depreciation on Funded Assets	403,068	427,953	369,767	477,046	429,945	2,107,779

Criteria

In principle since the capital expenditures relating to funded assets are financed by donors, Core Operating Cost should not include any depreciation charges on funded assets. Otherwise in a broader and long term sense this will lead to double funding for the same expenses - once for capital expenditures and another for depreciation charges.

Cause

Primary reason for inclusion of above depreciation charges is that ICDDR,B did not work out and thoroughly check the detailed break-up of the Core Operating Cost.

Effect

The overhead rate calculated in the ICDDR,B draft submission may have been inflated due to inclusion of above depreciation charges in the Core Operating Cost.

Recommendation

We recommend that the depreciation charges on funded assets, as referred to above, should be excluded from the Core Operating Costs considered to calculate the overhead cost rates, as have been excluded in our recalculation in Exhibit-1.

EXHIBIT

Exhibit-1

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH, BANGLADESH
SUPPORT OF USAID/BANGLADESH

Maternal and Child Health-Family Planning Extension Project C.A. # ANE-0071-A-00-7058
Maternal and Child Health & Family Planning Extension Project C.A. # ANE-0071-A-00-3016
Urban Volunteer Project C.A. # ANE-0073-A-00-6081
Urban Health Extension Project C.A. # ANE-0073-A-00-1054
AND
Project Development, Targeted Research, Targeted Institutional Linkage, Targeted Resource Development Strategy & Core Activities C.A. # DPE-5986-A-00-1009 (Washington Agreement)

RECALCULATION OF INDIRECT COST RATES - 1989 to 1993 IN THE LIGHT OF FINDINGS

	Finding Ref.	1989 US$	1990 US$	1991 US$	1992 US$	1993 US$
Project Revenue per Audited Accounts (as per ICDDR,B draft submission)		9,924,955	6,055,951	7,128,405	5,478,447	5,664,770
Less : Capital Expenditure	1	(1,023,470)	(196,990)	(497,685)	(235,031)	(176,460)
Depreciation	2	(49,165)	(43,851)	(19,490)	(6,304)	(6,420)
Overhead Recovered	3&4	(1,396,816)	(944,075)	(1,290,846)	(729,549)	(728,847)
Unallowed cost by RIG/A/S	5	0	0	0	(624)	0
DIRECT PROJECT COST		7,455,504	4,871,035	5,320,384	4,506,939	4,753,043
CORE OPERATING COST : (INDIRECT COST) (as per ICDDR,B draft submission)		4,871,617	4,647,757	4,355,579	6,009,070	6,776,807
ADJUSTMENT :						
Capital Expenditure	1	111,160	(112,787)	(132,083)	0	0
Overhead Recovered	3	(151,184)	0	0	0	0
Bad Debts	5	0	0	(20,405)	0	(2,490)
Unallowed cost by RIG/A/S	5	0	0	0	0	(1,025)
Entertainment Expenses	5	(11,165)	(15,114)	(17,806)	(23,710)	(9,640)
Interest on Bank Overdraft	5	(68,708)	(11,727)	(719)	(206)	0
Depreciation on Funded Assets	6	(403,068)	(427,953)	(369,767)	(477,046)	(429,945)
		4,348,652	4,080,176	3,814,799	5,508,108	6,333,707
LESS : Core Contribution		(1,872,800)	(2,865,712)	(3,220,515)	(4,048,563)	(4,505,724)
Other Receipts		(318,829)	(318,492)	(638,701)	(505,316)	(748,183)
RECALCULATED CORE OPERATING COST (i.e. Indirect Cost)		2,157,023	895,972	(44,417)	954,229	1,079,800
RECALCULATED INDIRECT COST RATES : Indirect Cost / Direct Project Cost X 100		28.93%	18.39%	0%	21.17%	22.72%

Note : Since the recalculated Indirect Cost amount for 1991 is a negative figure, the Indirect Cost Rate has been taken to be 0% for 1991.

Exhibit-2
(Page 1 of 5)

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH BANGLADESH (ICDDR,B)

Maternal and Child Health - Family Planning Extension Project (MCH-FP)
CA # ANE-0071-A-00-7058

CALCULATION OF OVERHEADS - 1989 TO 1993 ON THE BASIS OF RECALCULATED RATES

(Amount in US Dollar)

Year	Direct Operating Cost	Equipment	Overhead Charged	Total	Actual Overhed as per Recalculated Rates		Difference between actual Overhead & Overhead Charged	
					Rate (%)	Amount		
1	2	3	4	5	6	7=2 X 6	8=7-4	
1989	1,040,100	12,828	322,431	1,375,359	28.93	300,901	(21,530)	
1990	809,716	20,471	251,012	1,081,199	18.39	148,907	(102,105)	
1991	681,879	9,671	184,354	875,904	0	0	(184,354)	
1992	650,168	11,524	170,864	832,556	21.17	137,641	(33,223)	
1993	155,413	981	40,843	197,237	22.72	35,310	(5,533)	
Total	3,337,276	55,475	969,504	4,362,255		622,759	(346,745)	AGAINST ICDDR,B.

Notes: (1) Actual overhead amount has been calculated by applying the rate to the direct operating costs, year by year.

(2) The CA expired in March 1993.

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH BANGLADESH (ICDDR,B)

Maternal and Child Health and Family Planning Extension Project (MCHFP)
CA # ANE-0071-A-00-3016

CALCULATION OF OVERHEADS - 1993 ON THE BASIS OF RECALCULATED RATES

(Amount in US Dollar)

Year	Direct Operating Cost	Equipment	Overhead Charged	Total	Actual Overhed as per Recalculated Rates		Difference between actual Overhead & Overhead Charged
					Rate (%)	Amount	
1	2	3	4	5	6	7=2 X 6	8=7-4
1993	553,134	36,723	171,059	760,916	22.72	125,672	(45,387)
Total	553,134	36,723	171,059	760,916		125,672	(45,387) AGAINST ICDDR,B.

Notes: (1) Actual overhead amount has been calculated by applying the rate to the direct operating costs.

(2) The CA started in April 1993 and is scheduled to expire in July 1997.

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH BANGLADESH (ICDDR,B)

Urban Volunteer Project (UVP)
CA # ANE-0073-A-00-6081

CALCULATION OF OVERHEADS - 1989 TO 1992 ON THE BASIS OF RECALCULATED RATES

(Amount in US Dollar)

Year	Direct Operating Cost	Equipment	Overhead Charged	Total	Actual Overhed as per Recalculated Rates		Difference between actual Overhead & Overhead Charged
					Rate (%)	Amount	
1	2	3	4	5	6	7=2 X 6	8=7-4
1989	903,417	53,326	239,186	1,195,929	28.93	261,359	22,173
1990	525,014	805	131,455	657,274	18.39	96,550	(34,905)
1991	461,894	9,398	117,823	589,115	0	0	(117,823)
1992	263,506	56,629	80,033	400,168	21.17	55,784	(24,249)
	2,153,831	120,158	568,497	2,842,486		413,693 ?	(154,804) AGAINST ICDDR,B.

Notes: (1) Actual overhead amount has been calculated by applying the rate to the direct operating costs, year by year.

(2) The CA expired in March 1992.

Exhibit-2
(Page 4 of 5)

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH BANGLADESH (ICDDR,B)

Urban Health Extension Project (UHEP)
CA # ANE-0073-A-00-1054

CALCULATION OF OVERHEADS - 1992 & 1993 ON THE BASIS OF RECALCULATED RATES

(Amount in US Dollar)

Year	Direct Operating Cost	Equipment	Overhead Charged	Total	Actual Overhed as per Recalculated Rates		Difference between actual Overhead & Overhead Charged	
					Rate (%)	Amount		
1	2	3	4	5	6	7=2 X 6	8=7-4	
1992	481,788	7,717	141,957	631,462	21.17	101,995	(39,962)	
1993	618,245	11,870	182,734	812,849	22.72	140,465	(42,269)	
	1,100,033	19,587	324,691	1,444,311		242,460	(82,231)	AGAINST ICDDR,B.

Notes: (1) Actual overhead amount has been calculated by applying the rate to the direct operating costs, year by year.

(2) The CA started in April 1992 and expired in September 1994.

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH BANGLADESH (ICDDR,B)

PROJECT DEVELOPMENT, TARGETED RESEARCH, TARGETED INSTITUTIONAL LINKAGE, TARGETED RESOURCE DEVELOPMENT STRATEGY & CORE ACTIVITIES
CA # DPE-5986-A-00-1009

CALCULATION OF OVERHEADS - 1991 TO 1993 ON THE BASIS OF RECALCULATED RATES

Year	Project Develop-ment Fund	Targeted Funds Research	Institu-tioanl Linkage	Resource Develop. Strategy	Core Expen-diture Charged	Indirect Cost Charged	Total	Actual Overhead as per Recalculated Rates		Difference between actual overhead & overhead charged	
								Rate(%)	Amount		
1	2	3	4	5	6	7	8	9	10=(2+3+4+5)x9	11 = 10-7	
1991	107,149	470,165	47,405	0	400,000	117,541	1,142,260	0	0	(117,541)	
1992	76,888	775,270	29,507	47,279	375,000	193,797	1,497,741	21.17	196,657	2,860	
1993	154,382	920,864	37,403	26,799	350,000	230,216	1,719,664	22.72	258,883	28,667	
	338,419	2,166,299	114,315	74,078	1,125,000	541,554	4,359,665		455,540	(86,014)	AGAINST ICDDR,B

Notes:(1) Actual Indirect Cost amount has been calculated by applying the rate to the Direct Project Cost which in this case has been considered to include costs in column 2 through 5 above.

(2) The CA started in January 1991 and is schedule to expire in December 1995.

(3) Core expenditures charged in column 6 above are included in the core contributions that have been taken out from the Core Operating Costs (i.e. Indirect Costs) in ICDDR,B submission in Page 12 and as such also in our recalculation in Exhibit-1.

(4) In this case the Indirect Cost charged in column 7 has been taken to be the overhead cost cahrged.

Exhibit-3
(Page 1 of 1)

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH BANGLADESH (ICDDR,B)

SUMMARY OF OVERHEADS/INDIRECT COSTS AMOUNT OVERRDRAWN BY ICDDR,B IN RESPECT OF CAs
EXPIRING IN THE AUDIT PERIOD JANUARY 1989 TO DECEMBER 1993

Exhibit Reference	Project Title	Cooperative Agreement #	Expired In	Overhead Balance against ICDDR,B
				US$
Exhibit-2 (Pg.1 of 5)	Maternal and Child Health - Family Planning Extension Project (MCH-FP)	ANE-0071-A-00-7058	March 1993	346,745
Exhibit-3 (Pg.3 of 5)	Urban Volunteer Project (UVP)	ANE-0073-A-00-6081	March 1992	154,804
	Overhead balance overdrawn as on December 31, 1993			501,549

SUMMARY OF OVERHEADS/INDIRECT COSTS AMOUNT OVERDRAWN AND CORE
FUNDED EXPENDITURES OVERDRAWN BY ICDDR,B IN RESPECT OF CAs
ON-GOING AT THE END OF THE AUDIT PERIOD AS ON DECEMBER 1993

Exhibit Reference	Project Title	Cooperative Agreement #	Scheduled Expiring Date	Overhead / Indirect Cost Balance against of ICDDR,B
				US$
Exhibit-3 (Pg.2 of 5)	Maternal and Child Health and Family Planning Extension Project (MCHFP)	ANE-0071-A-00-3016	July 1997	45,387
Exhibit-3 (Pg.4 of 5)	Urban Health Extension Project (UHEP)	ANE-0073-A-00-1054	Sept. 1994	82,231
Exhibit-3 (Pg.5 of 5)	Project Development, Targeted Research, Targeted Institutional Linkage, Targeted Resource Development Strategy & Core Activities	DPE-5986-A-00-1009	Dec. 1995	86,014
	Overhead/Indirect Cost balance overdrawn as on December 31, 1993			213,632
	Total Overhead/Indirect Cost overdrawn			715,181

ACNABIN & Co.
Chartered Accountants.

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH BANGLADESH
SUPPORT OF USAID/BANGLADESH

Exhibit-4

Maternal and Child Health - Family Planning Extension Project C.A. # ANE-0071-A-00-7058
Maternal and Child Health and Family Planning Extension Project C.A. # ANE-0071-A-00-3016
Urban Volunteer Project CA # ANE-0073-A-00-6081
Urban Health Extension Project CA # ANE-0073-A-00-1054

COMPUTATION OF INDIRECT COST RATES SUBMITTED BY ICDDR,B ON JULY 17, 1995

	1989 US$	%	1990 US$	%	1991 US$	%	1992 US$	%	1993 US$	%
Direct Project Cost										
Clinical Sciences Division	1,802,851		1,799,219		1,886,542		2,115,699		2,620,039	
Laboratory Sciences Division	1,302,689		846,654		569,680		685,558		685,938	
Community Health Division	2,413,520		1,387,571		1,950,916		2,066,473		2,243,398	
Population Sciences & Extension Division	2,014,363		1,636,182		1,322,064		1,399,235		1,631,834	
Director's Office	115,596		41,655		(50,041)		105,631		134,946	
Training & Dissemination	426,570		281,607		418,673		269,711		271,677	
Support Service Division	0		0		0		0		0	
Finance	137,607		4,703		22,751		15,803		0	
	8,213,196		5,997,591		6,120,585		6,658,110		7,587,832	
Divisional Overhead										
Clinical Sciences Division	183,324	10.17	162,692	9.04	183,422	9.27	135,224	6.39	136,958	5.23
Laboratory Sciences Division	329,876	25.32	228,156	26.95	112,960	19.83	27,990	4.08	(19,277)	(2.81)
Community Health Division	(11,616)	(0.48)	119,486	8.61	246,036	12.61	407,178	19.70	320,169	14.27
Population Sciences & Extension Division	18,177	0.90	22,802	1.39	81,624	6.17	93,577	6.69	128,603	7.88
	519,761		533,136		624,042		663,969		566,453	
Central Overhead										
Clinical Sciences Division	0		16,592		0		0		0	
Laboratory Sciences Division	0		24,884		20,099		0		0	
Community Health Division	152,674		45,773		117,749		171,273		116,745	
Population Sciences & Extension Division	(3,777)		16,657		73,070		109,197		86,907	
Director's Office	672,163		427,523		538,518		391,489		252,522	
Training & Dissemination	327,631		205,148		180,483		228,372		258,944	
Support Service Division	898,723		775,913		813,048		853,907		880,202	
Finance	220,569		199,493		239,009		296,523		334,104	
Depreciation on Unfunded Assets	642,220		437,088		199,005		226,933		276,150	
	2,910,203		2,149,071		2,180,981		2,277,694		2,205,574	
Less : Entertainment	11,165		15,114		17,806		23,710		9,640	
Less : Interest on Bank Overdraft	68,708		11,727		719		206		0	
	2,830,330		2,122,230		2,162,456		2,253,778		2,195,934	
Percentage of Central Overhead to Direct Cost		34.46		35.38		35.33		33.85		28.94
Percentage of Divisional Overhead to Direct Cost :										
- Community Health Division for UVP		(0.48)		8.61		12.61		19.70		14.27
- Population Sciences & Extension Division for MCH		0.90		1.39		6.17		6.69		7.88
Rate applicable to - UVP		33.98		44.00		47.94		53.55		43.21
- MCH		35.36		36.78		41.50		40.54		36.82
Average Rate		34.67		40.39		44.72		47.05		40.02

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH BANGLADESH
SUPPORT OF USAID/BANGLADESH

ACNABIN & Co.
Chartered Accountants.

Exhibit-5

PROJECT DEVELOPMENT, TARGETED RESEARCH, TARGETED INSTITUTIONAL LINKAGE, TARGETED RESOURCE DEVELOPMENT STRATEGY & CORE ACTIVITIES

CA # DPE-5986-A-00-1009
(Washington Agreement)

COMPUTATION OF INDIRECT COST RATES SUBMITTED BY ICDDR,B ON JULY 17, 1995

	1991 US$	Core Contr./ Indirect Cost Rate	1992 US$	Core Contr./ Indirect Cost Rate	1993 US$	Core Contr./ Indirect Cost Rate
Direct Project Cost						
Clinical Sciences Division	1,059,714		1,372,227		1,768,364	
Laboratory Sciences Division	569,680		685,558		685,938	
Community Health Division	1,950,916		2,066,473		2,243,398	
Population Sciences & Extension Division	1,322,064		1,399,235		1,631,834	
Director's Office	(50,041)		105,631		134,946	
Training & Dissemination	418,673		269,711		271,677	
Support Service Division	0		0		0	
Finance	22,751		15,803		0	
	5,293,757		5,914,638		6,736,157	
CORE - Research Support Costs						
Clinical Sciences Division	1,010,250		878,696		988,633	
Laboratory Sciences Division	112,960		27,990		(19,277)	
Community Health Division	246,036		407,178		320,169	
Population Sciences & Extension Division	154,694		202,774		215,510	
Training & Dissemination	51,667		152,923		164,167	
	1,575,607	315,121 (20%)	1,669,561	333,912 (20%)	1,669,202	33,840 (20%)
Indirect Costs						
Clinical Sciences Division	0		0		0	
Laboratory Sciences Division	20,099		0		0	
Community Health Division	117,749		171,273		116,745	
Population Sciences & Extension Division	0		0		0	
Director's Office	538,518		391,489		252,522	
Training & Dissemination	128,816		75,449		94,777	
Support Service Division	813,048		853,907		880,202	
Finance	239,009		296,523		334,104	
Depreciation on Unfunded Core Assets	199,005		226,933		276,150	
	2,056,244		2,015,574		1,954,500	
Less : Entertainment	17,806		23,710		9,640	
Less : Interest on Bank Overdraft	719		206		0	
	2,037,719		1,991,658		1,944,860	
Percentage of Indirect Cost to Direct Cost :		38.49%		33.67%		28.87%
Expected USAID Contribution for Core (US$)		315,121		333,912		333,840
Indirect Cost Rate		38.49%		33.67%		28.87%

MANAGEMENT RESPONSE

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH, BANGLADESH
Mail : ICDDR,B, GPO Box 128, Dhaka 1000, Bangladesh
Phone : 600171-78, Telex : 675612 ICDD BJ
Fax : 880-2-883116, 880-2-886050, Cable : Cholera Dhaka

CENTRE
FOR HEALTH AND
POPULATION RESEARCH

ACNABIN & Co.
Chartered Accountants
National Scout Bhaban (13th Floor)
70/1 Inner Circular Road
Kakrail
Dhaka 1000

August 28, 1996

Dear Sirs,

ICDDR,B INDIRECT COST AUDIT

Thank you for your letter of August 4, 1996 and your attached draft report on the indirect cost audit of the USAID/Bangladesh CAs and USAID/W CA for the years 1989 to 1993.

We have carefully reviewed your draft report and noted that it does not conform with the suggestions contained in our letter of October 04, 1995 (copy attached). The method adopted by you in calculating the indirect cost rate is not consistent with the past accepted practice. In fact it is a major deviation from the previously practiced and accepted method.

In our opinion, the report does not reflect the correct formula for calculating overhead rate which would enable the centre to run at a break even. Hence, we reiterate that the calculation should be made on the basis of our original submission because of the following facts:

A) The Centre is a "not-for-profit (or loss)" organization dependent on donors' contributions and having only minor sources of its own income. Accordingly, all expenditures including depreciation are required to be funded in order to maintain financial stability. In essence, the Centre seeks to run on "no profit no loss basis" i.e. at break even point after charging depreciation;

B) Indirect costs were comprehensively audited in 1991 by Price Waterhouse (PW), Calcutta covering the period 1982 through 1988 applying the multi tier rates. Their reports were thoroughly reviewed and accepted by USAID and based on that USAID released the additional overhead due to ICDDR,B;

C) Subsequently, Deloitte Haskins & Sells (DHS), Calcutta also carried out similar audits for the years 1992 through 1994. In determining the overhead rate they did review the method of

PW and also applied the same formula. While accepting the report the Regional Inspector General/Singapore (RIG/S) did not raise any question as to the basis applied by DHS.

D) With the approval of RIG/S, ACNABIN & Co. were appointed to conduct an Indirect Cost Audit to provide a basis for a final rate for the years 1989 through 1993. In the course of the audit ACNABIN had reviewed all the previous reports submitted by PW and DHS and agreed in principal to the basis and formula adopted by them. Initially ACNABIN disagreed on certain allocated costs as to the their nature i.e whether to treat those as direct or indirect costs. Subsequently, after having a threadbare discussion in presence of DHS, we were able to resolve the cost allocation problems and presented you with the calculations of overhead. These calculations were based on almost the same format as the submissions of PW and DHS with ACNABIN having no major comments. The merits of the ICDDR,B presented formula are that consistency is maintained and the agreements refer specifically to overhead being on costs not costs less donor and other income.

The alternate format which we did submit during our discussions at the Sheraton Hotel was based on the premise that the Centre is a not for profit or loss organization and that overhead could be seen to be the total of all costs less donor contributions and other income but excluding overhead recovery. It is only applicable when it could be ensured that all the donors would contribute proportionately to the deficit (overhead), which is very unlikely, and would include all cash costs and deprecation. This concept, if allowable under USAID regulations, seemed to have merit until RIG/S later advised that items such as depreciation would have to be added back which immediately destroyed the concept. At the Sheraton meeting we pointed out that ACNABIN and the Centre were having some disagreements into which categories some costs would fall and that the suggested new format might solve that problem. Subsequently we were able to resolve those allocation problems.

In view of the foregoing we reiterate that the current USAID agreements are reasonably specific as to calculation and apportionment of costs and should be followed. Accordingly we believe that the correct basis for overhead calculation is as presented to and accepted by ACNABIN on July 17 1995.

Yours sincerely

K J Tipping

Kenneth J.J. Tipping
Division Director, Finance

cc: Mr. Whitney Glynn - RIG/A/USAID, Bangkok
Mr. F. Karim - USAID, Dhaka

INTERNATIONAL CENTRE FOR DIARRHOEAL DISEASE RESEARCH, BANGLADESH
Mail : ICDDR,B, GPO Box 128, Dhaka 1000, Bangladesh
Phone : 600171-78, Telex : 675612 ICDD BJ
Fax : 880-2-883116, 880-2-886050, Cable : Cholera Dhaka

CENTRE
FOR HEALTH AND
POPULATION RESEARCH

ACNABIN & Co.
Chartered Accountants
National Scout Bhaban (13th Floor)
70/1 Inner Circular Road
Kakrail
Dhaka 1000

October 4 1995

Dear Sirs,

ICDDR,B INDIRECT COST AUDIT

Thank you for your letter of September 28.

The format which we had suggested for use was based on the premise that the Centre is a not for profit organization and that, in essence, overhead could be seen to be the total of all costs less donor contributions and other income but excluding overhead recovery. We pointed out that ACNABIN and the Centre were having some disagreements into which categories some costs would fall and that the suggested new format may solve that problem.

Subsequently we were able to resolve the cost allocation problems and presented you with the calculations of overhead. These calculations were based on almost the same format as the submissions of Price Waterhouse and Deloitte Haskins & Sells with ACNABIN having no major comments.

Whilst we still see some merit in changing the basis for overhead calculation we consider that it would only be possible to apply it to future USAID agreements as the full concept is not developed i.e. what happens with depreciation, exchange gains and other income. (See attached internal memo dated July 4, 1995).

The current USAID agreements are reasonably specific as to calculation and apportionment of costs and must be followed unless there is an amendment to change the basis of calculation and retroactively apply it back to 1989. Accordingly we believe that the presented calculations are the ones to follow at this stage.

Yours sincerely

Kenneth J.J. Tipping
Division Director, Finance

To Controller, Finance

From Division Director, Finance

Subject USAID Overhead

Date July 4 1995

As you are aware we have been wrestling with direct and indirect costs as they pertain to USAID overhead calculations. This resulted in our thinking that as the Centre is a "not for profit (or loss)" organization we should be looking at overhead as the total of all costs less all income i.e. if all overhead was recovered we would break even after charging depreciation.

This concept was bounced off Tom Egan (USAID regional auditor) and ACNABIN with both parties thinking it could be a sensible approach because it was so simple.

Whilst this may be a sensible approach for future USAID agreements it is fraught with difficulties in trying to apply the concept to the current agreements because:

consistency is lost,

the agreements refer specifically to overhead being on costs not costs less donor and other income,

it is contrary to OMB circulars,

problems with depreciation and

it would probably take years to have the concept accepted by USAID with the result that if any additional overhead is due it would be dramatically delayed.

Because of the above the overhead for the years 1989 and after should be calculated in accordance with the approach taken by Price Waterhouse in the audit of the overhead rate to 1988.

It is important that ACNABIN, Deloitte and the Centre fully agrees which costs are direct, indirect and central and that the allocation is consistently followed for the years 1989 to 1994.

Notwithstanding the above I still think the we should look at the unrecovered costs basis for inclusion in future USAID agreements.