

PD-AAB-226-EI



Auditor General

OPPORTUNITIES INDUSTRIALIZATION CENTERS INTERNATIONAL, INC.

CONTRACT NO. AID/afr-653

GRANT NO. AID/pha-1128

Audit Report Number	<u>76-165</u>
Issue Date	<u>NOV 25 1975</u>

Office of Audit
Agency for International Development
Washington, D.C. 20523

OPPORTUNITIES INDUSTRIALIZATION CENTERS INTERNATIONAL, INC.

Contract No. AID/afr-653
Grant No. AID/pha-1128

INTRODUCTION

We have reviewed 78 different - but interrelated - allegations against Opportunities Industrialization Centers International, Inc. (OICI). These allegations were submitted to AID by a former bookkeeper of the company. Thirty-five allegations associated with the International Director are covered in a special report (Audit Report No. 76-161). The remaining 43 represented significant indicators of procedural, organizational, and/or contractual weaknesses requiring management's attention that are covered in this report.

SUMMARY

The Central Office appeared to be overstaffed. We recommend that four positions be abolished. High personnel turnover have been costly to AID and technical assistance in recruitment and selection of employees is needed.

As OICI is principally AID funded, cost overruns and contract cost disallowances will seriously impair its cash flow and solvency as noted in this report. We are concerned that OICI may not have the financial capability to successfully achieve project objectives and recommend that this be reassessed.

Past coordination between AID and OICI was poor. AID should provide guidance in clarifying its grant restrictions and requirements and help in establishing procedures that will identify actions requiring AID approval.

Various weaknesses were noted in the accounting system, personnel policies and employment contracts. Implementation of our recommendations should improve the conditions noted.

This report was reviewed in draft by the Project Manager, Contracting Officer and the Grant Officer. Pertinent and material comments were considered prior to its finalization.

FINDINGS AND RECOMMENDATIONS

A. Organization

Central Office

OICI has eleven professional and six secretarial and administrative employees in the central office to support its 16 U.S. field staff in four African countries. The ratio of central office personnel to field personnel appears excessive.

In March 1975, AID proposed a support complement of 12 employees but no definitive action was taken by OICI. Because of its concern, AID contracted with Wolf and Company, management consultants, to make a personnel management survey. Its report was issued in June 1975. Although the Wolf report identified one employee for dismissal and one position for elimination, it recommended a headquarters staff of 18 positions and the Table of Organization shown as Exhibit A. We believe 18 positions are excessive to current needs and recommend the following reductions:

a. Administrative Assistant

The incumbent of this position implemented many details normally delegated to a Deputy Director. Since the appointment of a regular deputy this position is considered surplus.

b. Procurement Officer

There have been five incumbents in this position since 1971 and the position has been vacant since late 1974. As the duties have been redelegated, the position is no longer needed.

c. Secretarial Employees

The Central Office presently employs four secretaries, one administrative secretary and one administrative assistant. The secretarial staff is high in relation to only 11 other positions. We recommend that at least two secretarial positions be eliminated.

Recommendation No. 1

The Director, SER/CM should request the OICI Board of Directors to abolish the positions of Administrative Assistant, Procurement Officer and two secretaries.

B. Personnel Practices

1. Turnover of Personnel

OICI's high personnel turnover has resulted in excessive travel and transportation costs to AID and caused the maximum unemployment tax to be levied by the State of Pennsylvania. During the infancy stage of an organization, considerable personnel turnover can be expected. As OICI began its operation in 1969, some leveling off should now be noticeable. This is not the case as 67 percent of separations occurred between 1973 and 1975.

We reviewed the personnel files of 57 separated employees in an attempt to determine the underlying causes of the high turnover. We found that inter-personnel conflicts accounted for about half of the resignations. Six field employees resigned because of cultural shock or dislike for their country of assignment in Africa. This suggests that the recruitment process did not reveal that some employees were not suited for the positions for which they were hired. In our opinion, however, the major reason for abrupt and accelerating separations was the unstable environment created by the former International Director. His poor management practices caused many of the hostilities cited in the personnel files and led to an atmosphere of job insecurity within the organization. This is substantiated by more than half of the separations in the Central Office occurring within the last ten months before the Director's reassignment in September 1975.

With the appointment of a new International Director, the situation should improve. Although OICI is making attempts to upgrade its recruitment procedures, professional assistance to this area is also needed (See Recommendation No. 2.).

2. Personnel Policies

OICI submitted its personnel policies to AID for review. A comprehensive review could identify other areas requiring change. However, our limited review of the policies indicated that they should be changed in the following areas:

- Permanent employees placed on a probationary period lose all vacation privileges (PN 12).
- Policy No. 20 provided that 15 days of sick leave instead of the 13 day maximum which may be contractually reimbursed by AID.
- Completion of new hire probationary periods does not guarantee permanent employment.

Recommendation No. 2

Director, SER/CM should request OICI to obtain technical assistance in the recruitment and processing of personnel, and in establishing fair and equitable personnel policies.

C. Financial Accounts

1. Advances and Private Account

The financial condition of OICI is principally dependent on AID funding. Advances of cash are made by AID to finance current operations pending reimbursement of approved expenditures. At the time of our review these advances totalled \$255,000. OICI also has a private account amounting to about \$29,000.

Cost overruns not approved by AID and contract cost disallowances seriously impair OICI's cash flow and solvency. Except for the small private account, the organization has no financial reserves of its own to absorb overruns and disallowances.

Our Audit Report No. 75-315 covering one year's operation recommended cost disallowances of \$75,475. It is anticipated that an audit currently in process covering the latest 18 months will recommend recovery of cost overruns and questioned contract costs of at least \$100,000. If sustained, this funding deficit will have a crippling effect upon OICI that must be considered by AID in its continued support planning.

Recommendation No. 3

AA/PHA should reassess OICI's financial capability to continue the project and successfully achieve AID's objectives. The reassessment should be made under the criteria of Handbook 13, Chapter 4.

2. Accounts Receivable from Employees

The OICI employment contract and the AID contract provide identical weight allowances for excess baggage, unaccompanied personal effects, and shipment of car, but are different on shipment or storage of household effects.

At the time of our review the OICI employment contract did not authorize employees to take any household goods overseas; and single employees were not authorized any storage allowance.

This policy has created financial problems for both OICI and its employees. For example, 38 percent (\$10,933) of OICI private assets (\$28,728) were accounts receivable from employees. Most of this represents costs for shipment or storage of personal effects in excess of weight allowances authorized by the employment contract.

Recommendation No. 4

The Director, SER/CM should request OICI to prepare a detailed analysis, on a case by case basis, itemizing reasons and circumstances for overshipments and creation of accounts receivable for consideration of the Contracting Officer in determining allowable contract costs.

3. Fixed Assets

Our last audit (Audit Report No. 75-315) indicates OICI does not have an adequate accounting system and control over fixed assets. The last physical inventory of central office fixed assets was conducted in 1972 and the Ghana assets were inventoried in December 1973; no inventories were made in Nigeria, Kenya, or Ethiopia. A listing of fixed assets, as of December 31, 1973, was \$3,918 less than general ledger control balances. Cost of ordinary repairs and maintenance were erroneously included in the listing and the general ledger balance.

At the conclusion of the 1973 audit, the central office was in process of completing an itemized identification of its fixed assets and entering adjustments on fixed asset ledger cards. Field offices had also been instructed to prepare a listing of fixed assets. Specifically, OICI should take the following steps to improve its control of fixed assets: (a) subdivide the equipment and commodities account so equipment purchases and repairs and maintenance can be recorded separately; (b) reconcile general ledger and fixed asset ledger cards; (c) take annual physical inventories of equipment; and (d) report equipment losses, if any, to the AID Contracting Officer for disposition.

Recommendation No. 5

Director, SER/CM should request OICI to implement the steps noted above.

4. Accounts Payable

The account with Pan American Airlines has not been reconciled in two years because there was no adequate system to monitor flights and subsequent charges. At our request, the airline agreed to send OICI an itemization of flight costs since January 1973. With the contract being closed out, it is essential that this account be reconciled.

Recommendation No. 6

The Director, SER/CM should request OICI to reconcile its accounts payable to Pan American Airlines.

5. Travel Funds

Travel advances are often outstanding up to 12 months after a trip is made. Procedures for payment and accounting for per diem are not compatible with those provided in the Standardized Government Travel Regulation or Section 155 of A.I.D. Handbook 22. Specifically, travel time is computed on a daily basis and not in quarter-days as required by the regulations.

Recommendation No. 7

The Director, SER/CM should request OICI to institute a policy requiring employees to account for travel advances immediately upon returning from trips, and require all employees to itemize travel time in quarter-days in accordance with Section 155 of Handbook 22.

6. Allocable Expenses

OICI does not have adequate guidelines for allocating costs and revenue between its private account and AID-supported task orders. As a result, the private account was not allocated any costs for rent, telephone, supplies and direct time spent by the international director and accounting personnel on non-AID matters. Conversely, refunds and rebates were debited to the private account, with no allocations being made to AID task orders.

Recommendation No. 8

The Director, SER/CM should (a) establish AID's policy regarding allocation of such costs as rent, supplies and direct time to the private account; (b) request OICI to maintain a telephone log to serve as basis for charging long distance calls to task orders and the private account; (c) request OICI to establish, and hereafter maintain, a procedure to identify refunds and rebates as to source of original payment.

D. Coordination and Monitoring

We found a lack of past coordination between OICI and AID concerning an understanding of each other's problems and contract requirements. This created an environment of after-the-fact negotiations rather than resolving issues as they arose. For example, prior audits questioned costs incurred without AID approval that should have been resolved prior to audit. These included:

1. Hiring consultants,
2. Personnel hired exceeding the 15 employee central office ceiling,
3. Ocean shipments of household effects on foreign flag carriers,
4. Shipments of foreign made motor vehicles,
5. Purchases in excess of \$2,500,
6. Assignment of employees overseas,
7. Per Diem paid for trips to unauthorized countries.

The recent assignment of a permanent AID Project Manager within PHA/PVC/OPNS should be beneficial in improving monitoring and coordination. The contractor needs to develop a mechanism to identify questionable costs before they are incurred.

Recommendation No. 9

The Director, SER/CM should assist OICI in analyzing AID requirements and help develop internal controls that identify in advance costs or situations which require prior approval from AID.

BACKGROUND AND SCOPE

Background

The Opportunities Industrialization Centers of America (OIC/A) represents a proven concept in manpower training and development. Efforts to internationalize this philosophy have been supported by AID since 1969.

In March 1970, OICI was incorporated under Pennsylvania laws as a non-profit organization that qualifies for tax exempt status. Its broad objectives are to reaffirm and restore the historical ties between Africa and America, and assist in the organization, development and operations of OIC programs. Except for a small general fund, OICI is about 99 percent funded by AID.

On August 15, 1969, AID signed a basic agreement (No. AID/afr-653) with OICI. Six task orders have been executed to provide financial support to the home office and programs in four African countries (Ghana, Nigeria, Kenya, and Ethiopia). The basic agreement, with a total ceiling of \$5.7 million, expired on June 30, 1975. AID has signed another contract (No. AFR-C-1110) with OICI for feasibility studies to be conducted in six other countries (Gambia, Sierra Leone, Liberia, Togo, Zambia, and Botswana). The ceiling for this contract is about \$146,000.

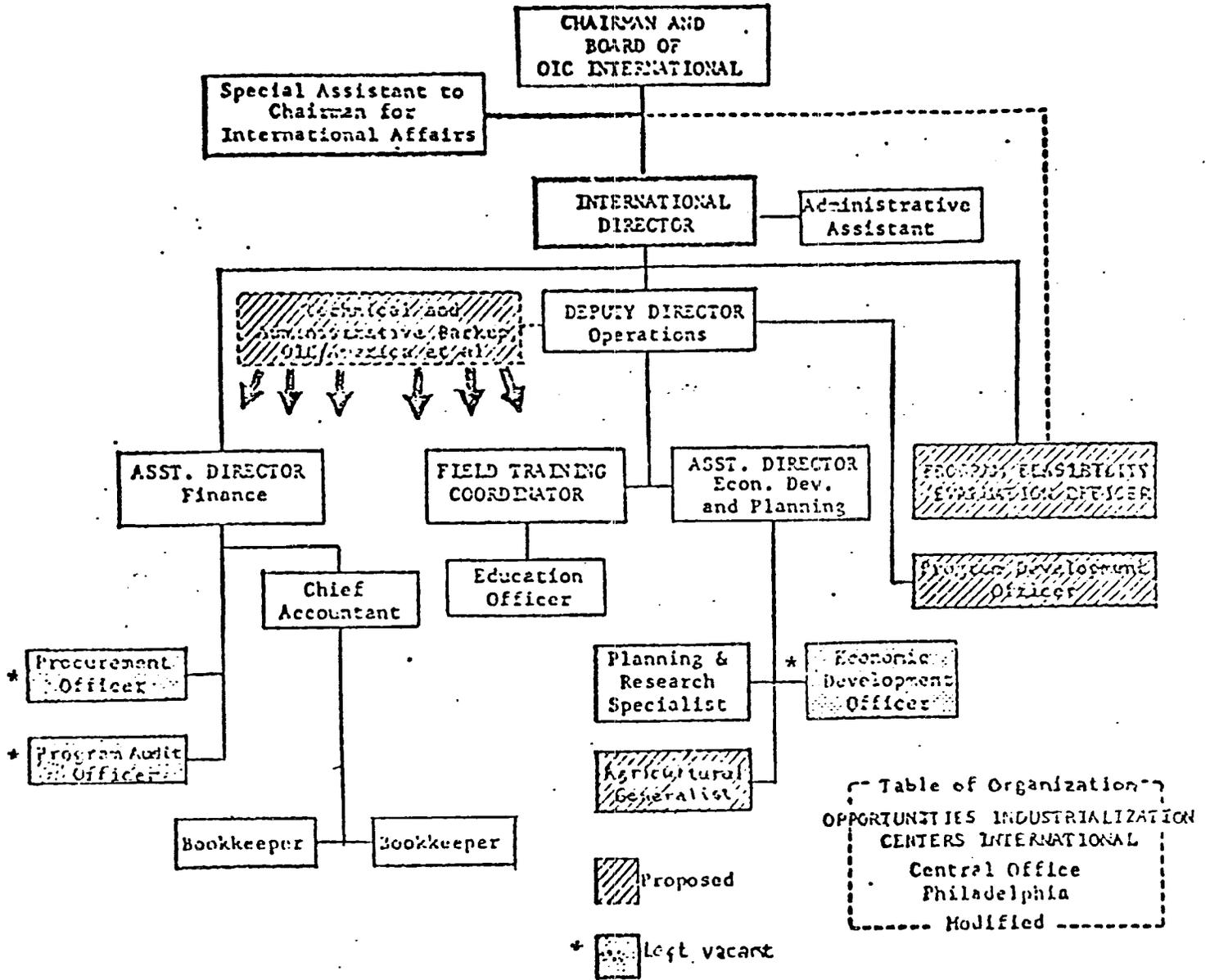
Beginning July 1, 1975, the operations of OICI are to be "Grant Funded". The first Grant (No. AID/pha-G-1125) was signed July 7, 1975. It funds \$850,000 to December 31, 1975 with a \$3.0 million ceiling.

In late April 1975, a former bookkeeper of OICI - assisted by other employees - submitted to AID a total of 34 "exhibits" which contained 78 different, but interrelated allegations. Of these, 43 were related to procedures, organizational structure, and inter-organizational relations and are covered by this report.

Scope

This special review was made to identify underlying causes for weaknesses. We held meetings with the AID Project Manager, Special Committee of the Board of Directors, Director, former bookkeeper, employees, former employees, cognizant CPA firms, and appropriate regulatory agencies of the State of Pennsylvania. We analyzed, to the extent necessary, personnel and financial records and obtained pertinent information from our field AAG offices.

OPPORTUNITIES INDUSTRIALIZATION CENTERS INTERNATIONAL, INC.



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Contract No. AID/afr-653
Grant No. AID/pha-1128

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UNITED STATES GOVERNMENT

Memorandum

TO : AG/AUD, Mr. Fred C. Shaver

DATE: FEB 26 1976

FROM : SER/CM/COD, Robert J. O'Brien /s/ R. J. O'Brien

SUBJECT: Audit Report No. 76-165,
Contract AID/afr-653,
Grant AID/pha-1125 with
Opportunities Industrialization Centers International, Inc.

The following is in response to your memorandum of November 25, 1975 which forwarded the subject Audit report. Our comments are as follows:

1. Recommendation No. 1

The Wolf & Company report stated "at the time of the evaluation team's visit to OICI Central, there were 17 people employed in the office, of whom 2 were bookkeepers and 4 were secretaries." There were 20 positions listed on the organizational chart as follows:

1. International Director
2. Deputy Director for Operations
3. Field Training Coordinator
4. Asst. Director, Econ. Dev. & Planning
5. Asst. Director Finance
6. Personnel Administrator
7. Planning and Research Specialist
8. Chief Accountant
9. Education Officer (Ed./Training Specialist)
10. Admin. Asst. To Intl. Dir.
11. Bookkeeper
12. Bookkeeper
13. Admin. Sec. To Intl. Dir.
14. Secretary III
15. Secretary III
16. Secretary I
17. Secretary II
18. Economic Development Officer (vacant)
19. Program Audit Officer (vacant)
20. Procurement Officer (vacant)

The Wolf Report recommended elimination of the Personnel Administrator, but addition of a Program Feasibility/Evaluation Officer; a Program



Development Officer; and an Agriculturalist. In addition they recommended replacement of one individual (but not elimination of the position) who occupied the job Assistant Director, Economic Development and Planning. This means the Wolf Report suggested a staff of 19. The OICI proposal for expenditure of the \$850,000 granted contained a staff of 25. We funded a staff of 19 as follows:

1. International Director
2. Asst. Director/Chief Operations
3. Admin. Asst./Secretary
4. Agricultural Generalist
5. Education Officer
6. Personnel Administrator
7. Assistant Director/Finance
8. Chief Accountant
9. Program Audit/Procurement Officer
- (2) 10. Accountant/Bookkeeper
11. Asst. Dir. Planning/Evaluation Officer
12. Economic Development Officer
13. Planning & Research Specialist
- (4) 14. Secretaries
15. Typist

This is the staff which, in the considered opinion of the Program and Contracts Office, would most efficiently and effectively carry out the objectives of the Grant. The Personnel Administrator was retained in order to better control past abuses and the Field Training Coordinator was eliminated. The Wolf report said the Assistant Director/Chief Operations could assume the personnel duties but PHA/PVC felt that he could better assume the Field Training Coordinator duties.

The Recommendation states that the Administrative Assistant to the International Director should be eliminated as well as the procurement officer and 2 secretaries. The staff funded retains an administrative assistant/secretary for the Office of the International Director, as did the Wolf Report; combined the Procurement Officer with the Program Audit (both jobs were part of the Wolf - recommended staff); and retained four secretaries one each for the Operations Office (3 professionals); the Personnel Office (1 professional); the Finance Office (5 professionals); and the Econ. Dev. & Planning Office (3 professionals). We feel each of these positions is justified.

We have no authority to direct a private organization to hire or fire its employees as your report seems to suggest. We can, however, negotiate with them concerning staffing and advise them which positions within their organization we are willing to fund. We feel that we have complied with the Recommendation in funding a staff which represents the minimum necessary to accomplish this program.

2. Recommendation No. 2

This was handled by CM/SOD/OSC, Mr. F. J. Moncada in his memorandum to you dated December 9, 1975.

3. Recommendation No. 3

Although this Recommendation was directed to AA/PHA, Handbook 13 stipulates that certification of responsibility (which includes assessment of financial capability) shall be done by the Grant Officer. As of this moment, we see no evidence to indicate that OICI cannot carry out the program. The Grant Officer will coordinate with the CM/ROD/AFR Contracting Officer concerning the resolution of audit findings and make appropriate judgments when more facts are known.

4. Recommendation No. 4

This Recommendation cannot be acted upon in its present form. Without knowing specific dollar amounts and under which document the costs were incurred we cannot adequately resolve the problem. We assume the specifics related to these costs will be contained in the cost audits currently being performed. We will, however alert OICI to the general problem and resolution of the issue will be handled on receipt of the cost audit.

5. Recommendation No. 5

Our comment is the same as Recommendation No. 4

6. Recommendation No. 6

Our comment is the same as Recommendation No. 4.

7. Recommendation No. 7

This was handled by CM/SOD/OSC, Mr. F. J. Moncada in his memorandum to you dated December 9, 1975.

8. Recommendation No. 8

This is being handled by CM/COD/PHA, Mr. G. P. Gold. He wrote to OICI on January 29, 1976 and is awaiting their comments.

9. Recommendation No. 9

We invited OICI representatives to Washington on Nov. 20, 1975. Mr. Robinson and Mr. Green met with Mrs. Anderson and Mr. Tanner of AID.

They discussed point b' point the requirements of the grant provisions regarding approvals and other requirements. This has led to a better understanding of the grant.

On the basis of the above, we consider Recommendation 1, 2, 3, 4, 5, 6, 7, and 9 closed.

Clearances: *

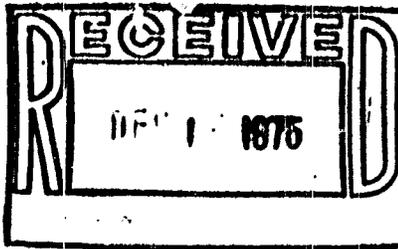
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CM/ROD/AFR, NCaticchio	_____	date	_____
CM/SOD/OSC, FMoncada	_____	date	_____
PHA/PVC/OPNS, VAnderson	_____	date	_____

*See page attached

CM/COD/PEA:LTanner:ne/lm: 2/13/76

UNITED STATES GOVERNMENT

Memorandum



*Mr. Ulinski
Anderson*

TO : AG/AUD, Mr. Fred C. Shaver

DATE: December 9, 1975

FROM : CM/SOD/OSC, F. J. Moncada 

SUBJECT: Audit Report No. 76-165, Opportunities Industrialization Centers International, Inc. (OICI)

The Director, SER/CM assigned the responsibility for Recommendation Nos. 2 and 7 to OSC. Our response to those two recommendations follows:

Recommendation No. 2

We do not think that OICI should engage a consultant to assist in recruitment and processing of personnel. PHA/PVC monitors recruitment and employment of professional employees by OICI and we understand that some progress has been made during the last two or three months. AID employees will continue to assist OICI in the matters of recruitment and personnel retention.

As to the matter of establishing fair and equitable personnel policies we believe that OICI has made considerable progress toward that goal. On June 1975 we asked OICI to submit its personnel policies for review and approval. Following our request OICI drafted a personnel manual and submitted it for our review in late September 1975. We have discussed the personnel policies and procedures with Mr. Gary Robinson, International Director of OICI, and on November 21, 1975 sent him a letter (copy attached) containing several recommendations and suggestions for changes to the personnel manual. Mr. Robinson has stated that the changes are being made and that the revisions will be forwarded soon. We expect that by the end of January 1976 we will have "accepted" OICI's personnel policies.

Recommendation No. 7

Mr. Robinson has stated that OICI intends to adopt in total the U.S. Government regulations pertaining to travel and transportation. Thus, all of AID Handbook 22 will become OICI policy.

OICI's policy pertaining to travel advances will become generally the same as that described in Chapter 4 of AID Handbook 22.

Mr. Robinson has been furnished an up-to-date copy of Handbook 22 and other relevant USG documents.

cc:

PHA/PVC, Mr. J. Ulinski

COD/PHA, Mr. G. Gold



19 DEC 1975

TO: AG/AUD, Fred C. Shaver, Director

FROM: AA/PHA, Harriett B. Crowley, Acting V/s/ H.S.C.

SUBJECT: Audit Report No. 76-165 Contract No. AID/afr-653
Grant No. AID/pha-1125, OICI

Our response to Audit Recommendation No. 3 follows. The remaining recommendations in this audit were addressed to other AID Offices.

Recommendation No. 3:

AA/PHA should reassess OICI's financial capability to continue the project and successfully achieve AID's objectives. The reassessment should be made under the criteria of Handbook 13, Chapter 4.

Response:

Some time ago, my office undertook a major evaluation of all OICI capabilities and made recommendations which OICI accepted and for the most part has by now implemented. With respect to their financial capability we have taken the following actions:

- a. On August 27, 1975, OICI was issued Handbook # 14 concerning funding for travel and transportation and Handbook # 22, Volume I, Procurement Regulations.
- b. During the week of July 7, 1975, OICI was informed that travel, both domestic and international required prior approval from AID/W. To the best of our knowledge, OICI has been responsive to these instructions. At the time of request for approval, the terms of appropriate per diem, fees and allowances, if any, are defined when necessary.
- c. On August 20, 1975, my office provided a prototype of a personal services contract to OICI in order to assist in the development of a system of hiring and help establish criteria for just payment for services.
- d. Regarding overseas expenditures for local employees, my office has instructed OICI to assure that its local salary structure is compatible with that established by the U.S. Embassy in the concerned country.

- e. In September, 1975, OICI presented its personnel policies, job descriptions, and salary scale to AID/W for analysis. These have been reviewed and modified by the appropriate AID office, in accordance with AID Regulations.
- f. The OICI Core budget was also presented to AID in September. This budget was modified in line with acceptable AID expenditure regulations. The Grant Amendment incorporated the mutually approved expenditure modifications.
- g. Proposals for OICI internal promotions are reviewed by AID. The AID recommendation prevails.
- h. Salaries for new hires in the central office, even on a part-time basis, are approved by AID prior to commitment by OICI.
- i. Lastly, OICI has secured the services of a graduate of the Wharton School of Finance, University of Pennsylvania, to head its controller's shop. Immediately prior to joining OICI this employee was an instructor of Finance, Temple University, Philadelphia. He is a Ph.D. candidate needing only to complete his dissertation for award of the degree.

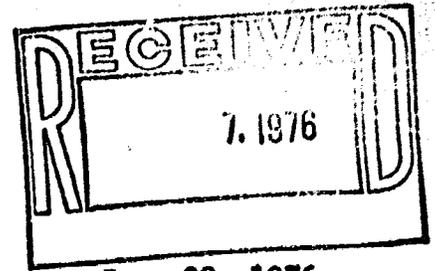
Considering the above, we believe the OICI financial management is now quite in line with the terms and conditions of Handbook # 13, Chapter 4 and therefore we request that Recommendation No. 3 be closed. We shall, of course, continue to assess their progress.

Clearances: PHA/PVC:JAULinski (In Draft)
PHA/PRS:DMcMakin (In Draft)
PHA/PHN, A. J. FURMAN

Drafted by: VAnderson:Hn:PHA/PVC:12/17/75

In 1975, a special provision was made of a financial services program as it is to assist in the development of a financial and investment structure for the country.

Research should be conducted for local employees, who are to be instructed to ensure that the local industry structure is compatible with that established in the country in the concrete industry.



June 30, 1976

AG/AUD, Mr. Rollan J. Deschambault
TERU : CH/ROD/AFR, N. A. Caticchio /s/ N. A. Caticchio
CH/ROD/AFR, Patricia L. Bullock

File
Audits - AG

Audit Report No. 76-300, Basic (Ordering) Agreement No. AID/afr-653, Task
Order Nos. 2 and 3 - OICI, Recommendation No. 6

The subject recommendation is considered closed by this office inasmuch as (1) OICI/Philadelphia was notified by PHA/PVC/OPNS in April 1976 that no new funds were being made available to fund the program beyond June 30, (2) T. O. #3 expires on June 30, 1976, and (3) the Nigerian program is being phased out in an orderly manner.

CC: PHA/PVC/OPNS, V. Anderson
SD/SUP: D. Sutton

CH/ROD/AFR:FLB:jlg:6/30/76