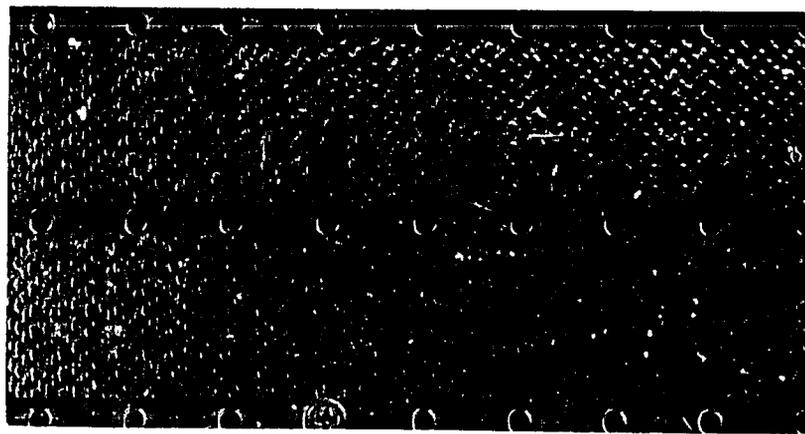


THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
ABIDJAN

THE ADMINISTRATIVE AND FINANCIAL PRACTICES  
OF THE SAFGRAD PROJECT  
NEED TO BE IMPROVED

Audit Report No. 7-698-83-1  
Dated November 16, 1982

The Management elements of the project have not developed as envisioned, leaving the OAU Coordinator's Office as the only functioning element. There are clear indications of mismanagement by this office, resulting in:

- the recruitment of excessive personnel to administer the responsibilities of the office;
- poor financial practices and questionable transactions.

AID needs to address these problems immediately as well as improve its own oversight of the project.

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## EXECUTIVE SUMMARY

### Introduction

On May 23, 1977, AID and the Organization for African Unity's Scientific and Technical Research Commission (OAU/STRC), located in Lagos, Nigeria, signed a Grant Agreement under which AID agreed to provide up to US\$13.3 million to finance the Semi-Arid Food Grains Research and Development (SAFGRAD) Project. This funding was to be provided over a period of five years.

The purpose of the project is to develop improved cereal varieties (millet, sorghum, maize) and grain legumes (cowpeas, peanuts) and cultural practices, which are compatible with small farm semi-arid farming systems; and to promote their adaptation and use in farmers' fields. Project activities fall into two broad areas: first, regionally coordinated research on staple cereals and grains at three selected African research centers; and second, support to national research, field trials and outreach programs to develop tests and extend improved technologies to farmers.

SAFGRAD is a regional project with some 24 participating countries conducting field trials and sharing research results. The OAU/STRC in Lagos, which is the principal organizer of this regional approach, has been assigned coordinative and administrative support responsibility.

### Purpose and Scope

This audit was performed at the request of USAID/Upper Volta. The purposes of the audit were to determine the amount of a cash shortage and to review the records and financial practices of the OAU Coordinator's office as they relate to the propriety of expenditures made with AID funds. In addition, we reviewed AID's follow-up procedures to determine whether it had taken appropriate action on the recommendations of an Evaluation Report that had been made of the SAFGRAD program. The review included an examination of the project's records and discussions with OAU/STRC and USAID officials.

### The Management Mechanisms Of The Project Have Not Been Developed

Project guidance and management was to be provided through three organizational elements:

- The Consultative Committee (CC) which was to provide overall policy and program guidance and assure sound administrative management and technical practices;
- The Technical Advisory Committee (TAC) which was to review annual research work plans and submit recommendations to the CC on approaches for improvement and coordination of food crop research;
- The OAU/STRC Project Coordinator in Ouagadougou who was to be the chief administrative officer and, under the guidance of the CC, serve a facilitating and coordinating role.

The CC and TAC have not developed into effective organizational elements. In view of the committees' ineffectiveness, the OAU/STRC Coordinator in Ouagadougou has emerged as the only functioning management element. Having almost total independence, the Coordinator has developed a rather autocratic style of management. To make matters worse, there are clear indications that the OAU Coordinator has mismanaged the administrative and financial aspects of the project (page 2).

#### The OAU Coordinator's Office Is Overstaffed

The Project Paper envisioned the Coordinator's Office as a small office with two to four people and an annual operating budget of US\$50,000. This budget has risen significantly, reaching US\$247,000 for FY 1982. This growth in the budget has been due to an increase in staffing which now consists of 19 people. Many of these 19 positions are excessive to the needs of the office. The recruitment of personnel, moreover, was not always based on proper qualifications. An example of this was the use of secretaries to handle the accounting function which resulted in financial chaos (page 3).

#### The Financial Practices of the Office Need To Be Improved

The OAU Coordinator's Office received over US \$1 million in AID-financed local currency funds. Yet both the OAU/STRC office in Lagos and USAID failed to ensure that a proper accounting system was in place to control these funds. The financial policies and practices of the office were deficient in almost all respects. The OAU Coordinator, for example, had total control over all cash receipts and disbursements. The allegations of kickbacks and other irregularities that surfaced during our audit thus have a basis of credence because of this concentration of functions (page 3).

#### Questionable Transactions Resulting From Poor Financial Practices

The lack of proper financial practices and internal controls resulted in some questionable transactions. These included:

- A cash shortage of US\$27,739 which the OAU Coordinator was unable to explain (page 5).
- AID-financed construction contracts awarded without competitive bidding and/or AID approval. A detailed audit of these contracts was hindered because the Coordinator, according to the staff, had instructed them not to cooperate with us on construction matters. Among the questions which arose during our audit and which we could not adequately address were: What happened to the equivalent of US\$36,546 in construction materials procured for the Kamboinse Research Center? Was construction at Kamboinse - except for some minor work - completed when the initial contractor terminated the contract? If so, why did the Coordinator negotiate completion of the work with another contractor at the local currency equivalent of US\$32,420? Moreover, during our discussions, one contractor alleged that he had to give kickbacks and other payments to the Coordinator (page 6).

- In the absence of internal controls it is questionable whether all claims for gasoline paid by AID were used for project purposes (page 8).
- There were no controls over the procurement of airline tickets or accounting for travel actually performed. In this regard, the Coordinator submitted an improper claim for the home leave airline travel of his family. Of the seven airline stubs submitted as proof of payment, five had, in fact, not been used but exchanged for Miscellaneous Charge Orders which are convertible into cash (page 9).

#### USAID Financial Monitoring Has Been Deficient

The USAID's financial monitoring of the project has been deficient. The Project Officer administratively approved financial reports without any substantive review or knowledge of the OAU Coordinator's financial management practices. Had these approvals been made in the manner required, the Project Officer would have realized there was no accounting system in place. To compound matters, USAID Controller personnel did not review the financial practices of the Coordinator's office during the first four years of this project (page 10).

#### A Project Evaluation Summary Should Be Prepared

A Project Evaluation Summary, as required by AID regulations, should be prepared. This summary is needed to formalize and monitor the action to be taken on the recommendations of an AID-funded Evaluation Report issued in July 1981 (page 12).

#### Summary of Management Comments

USAID/Upper Volta generally agreed with the findings and recommendations of this report. Its comments, as well as others, were duly considered in the final preparation of this report.

#### Conclusions And Recommendations

The administrative and financial practices of the SAFGRAD project are in need of improvement. The project management elements need to be strengthened. An accounting system needs to be installed in the Coordinator's office and adequate financial oversight exercised by the USAID and the OAU/STRC in Lagos. The report contains 10 recommendations listed in Exhibit C.

## INTRODUCTION

On May 23, 1977, AID and the Organization for African Unity's Scientific and Technical Research Commission (OAU/STRC), located in Lagos, Nigeria, signed a grant agreement under which AID agreed to provide up to \$13.3 million to finance the Semi-Arid Food Grains Research and Development (SAFGRAD) Project. This AID funding was to be provided over a period of five years.

The purposes of the project are to establish and develop a coordinated research and testing program for cereals and grain legumes, related farming systems, and training of a cadre of African agricultural researchers in plant breeding, and related agronomic and management practices for sorghum, millet, cowpeas and peanuts at research stations in Samaru, Nigeria, and Kamboinse/ Saria, Upper Volta (partly AID-financed) and at Bombey, Senegal and Lama Kara, Togo (other donor financed). On the bases of the results of research, field testing programs will be developed to determine the adaptability of new and improved grains under various ecological situations. Field test results will provide direction for national seed multiplication and crop protection programs aimed at small farmers and will provide feedback for scientists conducting adaptive research. The project will provide senior crops and soil scientists and farming systems researchers to develop and test new varieties and technologies under small farm conditions. It is expected that this project will increase liaison among researchers throughout the region through scientific conferences, planning sessions, and technical publications, and will provide technical assistance and support for field trials at the national level.

SAFGRAD is a regional project with approximately twenty four participating countries conducting field trials and sharing research results. The OAU/STRC in Lagos, which is the principal organizer of this regional approach, has been assigned coordinating and administrative support responsibility. In this regard, the OAU/STRC was to establish a Project Coordinator's office in Ouagadougou, Upper Volta.

### Purpose and Scope

This audit was performed at the request of USAID/Upper Volta. The purposes of the audit were to determine the amount of a cash shortage and to review the records and financial practices of the OAU Coordinator's office as they relate to the propriety of expenditures made with AID funds. In addition, we reviewed the AID's follow-up procedures to determine whether it had taken appropriate action on the recommendations of an Evaluation Report that had been made of the SAFGRAD program. The review included an examination of the project's records and discussions with OAU/STRC and USAID officials.

## FINDINGS AND RECOMMENDATIONS

### The Management Mechanisms of the Project Have Not Been Developed

The project suffers from a lack of adequate management and oversight.

The Project Paper, AID's basic design document, indicated that project guidance and management would be provided through the following three organizational elements:

The Consultative Committee (CC), composed of representatives of OAU/STRC, SAFGRAD member countries and project donors, was to provide overall policy and program guidance to the project as well as to facilitate project implementation and assure sound administrative management and technical practices.

The Technical Advisory Committee (TAC), composed of senior scientists from SAFGRAD countries including an OAU/STRC technical representative, was to be the CC's advisory body on research and other technical matters. In this role it was to review annual research work plans and other research documentation related to SAFGRAD in the Sudanese/Sahelian zone and submit recommendations to the CC on approaches for improvement or coordination of food crop research.

The OAU/STRC Project Coordinator, located in Ouagadougou, Upper Volta, was to be the chief administrative officer of SAFGRAD and, under the guidance of the CC, serve a facilitating and coordinating role among SAFGRAD operational entities and between those entities and cooperating countries.

The CC and TAC have not developed into effective organizational elements. Both committees, for example, were to meet annually, but more frequently if deemed necessary. Yet in the past four years, the CC has met only once (October 1981) and the TAC twice (May 1979 and October 1981). On those few occasions when the committees did meet, the meetings were not productive in terms of dealing with the various issues of the project. In view of the committees' ineffectiveness, the CC in particular, the OAU/STRC Coordinator in Ouagadougou has emerged as the only functioning management element.

In the absence of CC oversight, the OAU Coordinator does not seem to be responsible to anyone. Having almost total independence, the Coordinator has developed a rather autocratic style of management. Indicative of this is the Coordinator's effort to impose his authority over the AID-financed contractors' internal procedures and day-to-day operations, though the contractors are only subject to the general guidance of the CC. It is our view that this total independence and style of management have in part contributed to the financial deficiencies which evolved in the OAU Coordinator's office.

The management aspects of this project need to be strengthened. In addressing this problem, the USAID needs to determine whether the CC and TAC can be vitalized and developed into effective management elements. If not, other alternatives should be considered. Steps should concurrently be taken by the USAID and the OAU/STRC in Lagos to institute monitoring controls over the OAU Coordinator.

#### The OAU Coordinator's Office Is Overstaffed

The AID-financed operating budget for the OAU Coordinator's Office has risen dramatically due to an increase in staffing. Indications are that this staffing is excessive to the needs of the office.

The Project Paper envisioned the OAU Coordinator's office in Ouagadougou as a small office with a staff of two to four people. The operating budget for the office was projected at \$50,000 annually.

Over the years this AID-financed operating budget has significantly increased, reaching \$247,000 for FY 1982. This growth in the budget has been largely due to an increase in staffing which now numbers nineteen.

The operating budget, which is prepared annually, requires AID approval. We could find no evidence that AID, in approving the budgets, required the OAU Coordinator to provide detailed support for the substantial increase in personnel.

In reviewing this matter, USAID officials informed us that several of the nineteen positions presently financed by AID are not needed. These officials stated there is an excess of secretaries, translators and messengers. Other positions of questionable need are those of press officer and personnel officer.

We also found that the recruitment of personnel to handle certain functions was not always based on proper qualifications. Nowhere was this more evident than in the financial area. Though the organization received over \$1.0 million in AID-financed local currency funds, an accountant was not recruited until recently. To the extent that accounting was performed, which was minimal, it was done by secretarial help. The result was financial chaos.

A review of the OAU Coordinator's office needs to be made in order to determine the appropriate staffing needed to carry out the office's responsibilities efficiently and economically. This review should be performed by the OAU/STRC office in Lagos and monitored by the USAID.

#### The Financial Practices of the OAU Office Need to be Improved

Both the OAU/STRC office in Lagos and the USAID have been remiss in their financial oversight of the OAU Coordinator's office. The result has been a lack of proper accounting for AID funds provided to the Coordinator's office.

The Project Paper indicated that the level of AID funds channelled through the OAU Coordinator's office would be significant. In addition to operating expenses, AID-financed local currency funds were to be provided to the office for the costs of conferences, construction of facilities at Kamboinse Research Center in Upper Volta and the procurement of commodities. For example, through July 21, 1982, AID had provided over \$1.0 million for local currency expenses. In view of this level of funding, both the OAU/STRC office in Lagos and the USAID should have recognized the need for ensuring that a proper accounting system was in place and adequately monitored. Neither OAU/STRC in Lagos nor the USAID, however, made any effort to address the financial management needs of the Coordinator's office.

The OAU/STRC office in Lagos has an established set of financial policies, regulations and procedures which it requires its field offices to use. For some unexplained reason, when the OAU/STRC Coordinator's office was set up in Ouagadougou, this data was not provided to the OAU Coordinator. USAID officials indicated that the OAU in Lagos may have thought that the USAID would handle this matter since the office was located in Ouagadougou.

There is no evidence that the USAID either provided any substantive written guidance or reviewed the financial practices of the OAU Coordinator's office during the first four years of this project. It is significant to note that on January 29, 1981, the Inspector General issued an Audit Report (No. 81-35) on "Problems in Host Country Accounting for the Utilization of AID Funds in the Sahel." That report, which contained examples of inadequate accounting of AID projects in Upper Volta, should have alerted the USAID to the fact that the financial practices of the OAU Coordinator's office needed to be reviewed.

Not until October 19, 1981, did the USAID visit the OAU Coordinator's office to reconcile AID advances of local currencies to the OAU Coordinator's records. It was at this time that the USAID became aware that there were no financial records. Efforts were subsequently undertaken to reconstruct the use of the AID funds; however, since this effort was only partially successful, the USAID requested the Inspector General's office to perform an audit.

In reviewing the financial situation, we found that the OAU Coordinator had total control over all cash receipts and disbursements. The only semblance of accountability is AID's requirement that the AID-financed local currency funds advanced to the Coordinator be liquidated by the presentation of paid invoices. But with the disbursing and procurement function vested in the same person, these paid invoices are highly suspect. The allegations of kickbacks and irregularities that surfaced during our audit thus have a basis of credence because of this concentration of functions in the OAU Coordinator.

The financial policies and practices of the Coordinator's office were deficient in almost all respects:

- Financial statements have not been prepared until recently.
- Budgets have not been prepared or used to control the receipt and expenditure of funds until recently.
- An effective system of internal control has not been established for cash receipts and disbursements.
- No formal procurement policies have been established.
- Procedures have not been established to acknowledge the receipt of commodities.
- Accounting for property has not been performed.
- Maintenance records have not been kept for vehicles and equipment.
- Controls have not been established for travel advances, procurement of tickets, and settlement of travel expenditures.

Prior to completing our audit, the OAU/STPC in Lagos sent their Internal Auditor to Ouagadougou to review and discuss the situation with us. In these discussions, the OAU Auditor agreed with us that an accounting system with adequate internal controls needed to be instituted immediately. It was indicated that a financial representative from OAU Lagos would be setting up this system shortly. Under this system, OAU Lagos would be reviewing the receipt and disbursement of funds.

#### Questionable Transactions Resulting From Poor Financial Practices

The lack of proper financial practices and internal controls in the Coordinator's office has resulted in a cash shortage and some questionable transactions. Salient details on these deficiencies are presented below.

##### Shortage of Funds

Our audit disclosed a shortage of \$27,739 in AID-financed local currency funds which the OAU Coordinator was unable to explain.\*

It was the practice of the USAID to advance AID-financed local currencies to the OAU Coordinator's office for operating and other costs. The Coordinator's office is then required to provide the USAID with an accounting for these advances by submitting a report with paid documentation.

Through July 21, 1982, the USAID provided the equivalent of \$1,062,612 in advances of which the Coordinator's office had provided documentation liquidating the equivalent of \$742,593. There was consequently an unliquidated advance of \$320,019 for which the Coordinator's office had to provide an accounting.

\* Exchange rate used throughout the report is \$1.00 = CFA 339.30

In reviewing the status of this outstanding advance, we found that the Coordinator's office was only able to account for US\$292,280 which consisted of US\$190,883 in unreported disbursements and cash of \$101,397. The difference of \$27,739 represented a shortage of funds (See Exhibit A). Our review disclosed no evidence of any other existing documentation or cash that would explain this shortage. Therefore, until this shortage is resolved through refund action or the presentation of acceptable documentation, no further releases of AID funds should be made.

In reviewing the advances, we noted that the USAID had not determined what was an appropriate advance level to be maintained by the OAU Coordinator's office. The USAID, moreover, continued to make advances without requiring the Coordinator to provide timely expenditure data for prior advances. In this regard, the USAID was remiss in exercising proper control over the advances of AID funds. This situation was corrected prior to the termination of our audit with the establishment of an Imprest Fund totalling CFA 30 million. Under this system AID funds are only released to replenish actual disbursements.

#### Irregularities with Construction Contracts

AID funds were used to fund construction contracts which were awarded without competitive bidding and AID approval. Evidence indicates that these contracts were grossly mismanaged by the OAU Coordinator.

The project provided for the construction of various facilities at the Government of Upper Volta's (GOUV's) research centers in Kamboise and Loubila. The construction at Kamboise consisted of two buildings for office space, hangars for drying, packaging and storing seeds, renovation of the GOUV Director's office, construction of a bridge, and other miscellaneous items. At Loubila, a field house was built. Total construction costs reported to the USAID as of July 21, 1982, was CFA 80.5 million (\$237,253). See Exhibit B for details.

Under the terms of the grant agreement with AID, OAU/STRC was required to submit all documents relating to project construction to AID for approval in writing. This requirement included (1) prequalification of contractors; (2) solicitation of bids or proposals for goods and services financed under the grant, (3) approval of contracts and contractors for engineering and other professional services for construction and (4) approval of material modifications of the contracts. There is no evidence that the USAID required the Coordinator to adhere to these procedures.

An initial contract in the amount of CFA 20.3 million (\$86,354) was awarded without AID approval to Entreprise Tous Travaux de Construction (ETTC) for the construction of two buildings at Kamboise Research Center. The contract was later amended to include: (1) one hangar; (2) the renovation of the Voltaic Director's office; (3) the construction of a small bridge; and (4) the water connection to the buildings. The contract, as amended, totaled CFA 42.8 million (\$126,142).

One of the major problems under this contract is trying to determine what happened to some CFA 12.4 million (US\$36,546) in construction materials procured for the Kamboinse Research Center. Our efforts to determine the use of these materials were hindered by the Coordinator's instructions to the staff that they should not cooperate with us about matters relating to construction.

It seems that prior to the completion of construction the contractor encountered cash flow problems. The contractor consequently requested the Coordinator to guarantee the purchase of construction materials needed to complete the facilities. The Coordinator, in agreeing with this request, later paid several suppliers CFA 6.4 million for materials which the contractor reportedly procured but failed to pay for.

The Coordinator subsequently claimed that this CFA 6.4 million in materials was not used at the project site and asked for a refund. The contractor claimed he did not receive all the materials included in the Coordinator's request for refund. At this point the two parties agreed to terminate the contract, though construction was not fully completed.

In terminating the contract, the Coordinator offset CFA 2.9 million held as retentions on progress payments against the CFA 6.4 million refund claim. No further effort was made by the Coordinator to resolve the CFA 3.5 million unpaid balance.

Our review disclosed that the Coordinator subsequently purchased CFA 6.0 million in construction materials in addition to the CFA 6.4 million noted above. There is no supporting evidence that these materials were used at the Kamboinse Research Center. The documentation for these expenditures have not yet been submitted to the USAID as proof of payment of AID funds. When the claim for this transaction is presented, the USAID should require complete documentation and verifiable evidence that the materials were properly used for the facilities at Kamboinse.

In discussing this procurement of construction materials with the contractor, he was unable to say how much of the CFA 6.4 million he received. He also stated he had no knowledge of the additional CFA 6.0 million in materials procured for the facilities at Kamboinse. The contractor then made a number of serious allegations about kickbacks and other payments he made to the OAU Coordinator.

The contractor told us these kickbacks and other payments were based on promises made by the Coordinator that he would receive a permanent contract for performing various construction services in OAU sponsored projects. The contractor also stated the Coordinator led him to believe that the Coordinator was going to resign and establish a joint venture with him.

The contractor stated that construction had been completed at the time he terminated his contract, except for the hangar which was about 95 percent complete. There is no basis for verifying this claim.

We noted, however, that the Coordinator then arranged with Volta Enterprise (VE) to complete the construction at Kamboise at a cost of CFA 11 million (\$ 32,420). The amount of this negotiated arrangement represented a cost increase of over 25 percent of the amended contract. There is no evidence that this arrangement was subject to competitive bidding, formalized by a written contract or even reviewed and approved by the USAID.

The Coordinator next entered into a contract with VE to construct a soils and agronomy laboratory at Kamboise. The amount of this contract negotiated by the Coordinator, without formal bidding procedures, amounted to CFA 23.2 million (\$68,376). Though AID reviewed the contract, it did not approve it as required.

The Coordinator also awarded VE a CFA 3.2 million purchase order for the construction of a small field house at Loumbila as well as other construction work totaling CFA 8.867 million (\$26,133). None of this construction work was subject to competitive bidding or reviewed and approved by the USAID.

The Inspector General's Office of Inspections and Investigations was called in during the course of our audit. Appropriate action is being taken by that office in regard to the allegations and questionable practices.

The USAID's failure to require the Coordinator to comply with AID's competitive bidding practices has contributed to some of the questionable practices we found. Therefore, to avoid this situation in the future, the USAID should institute procedures to ensure that all procurement is awarded on a competitive basis.

#### Uncontrolled Gasoline Coupons

Internal controls were not established for the receipt, distribution and utilization of gas coupons. It is thus questionable whether all claims for gasoline paid by AID were used for project purposes.

The OAU Coordinator's office has a credit account with Shell Oil Company for the procurement of gasoline. Tax exempt coupon books are issued by the company to the OAU office against this account. These coupon books, some of which are then distributed to the AID-financed contractors and the AID Project Officer, are only valid when signed by authorized personnel. In the case of the Coordinator's office, the Coordinator or his designee is authorized to sign these coupons. The coupons, when used, serve as a basis for charging the office's credit account. Through July 21, 1982, the OAU Coordinator's office had submitted and the USAID had accepted documentation in support of CFA 5.2 million (\$15,325).

At the time of our cash count the Coordinator's office could not account for the coupon books received from the oil company. These coupons can be easily converted into cash and used by unauthorized persons without any questions being asked. Since these coupons represent potential claims against the project, it is imperative that the office establish controls over the receipt, distribution and use of the coupons.

The Coordinator's office has two vehicles, one assigned to the Coordinator and one to the USAID Project Officer. Both vehicles are of the same make, model and year. In reviewing the gasoline usage for these two vehicles during calendar year 1981, we found that the Coordinator used 8,995 liters compared to the Project Officer's 2,045 liters. It is significant to note that we were informed by employees of the office and others that the Coordinator's vehicle was seldom used for official duties. This high usage of gasoline thus raises a number of questions and lends some credence to an allegation that the Coordinator was giving coupons to his friends. This situation underlines the need for establishing a stricter control over the coupons.

The Coordinator has allowed the employees of the office to use coupons to purchase duty free gas for their personal use. The employees are required to reimburse the office for this use of coupons. There are no records, however, indicating how many coupons had been used by the employees or whether the employees had reimbursed the office for all the coupons used. This practice of permitting local employees to use coupons to buy duty free gas should be discontinued.

#### Lack of Control over Travel

There are no internal controls over the procurement of airline tickets or accounting for travel actually performed.

Through July 21, 1982, the Coordinator's office had submitted and the USAID had accepted documentation evidencing the expenditure of CFA 37.7 million (\$111,111) for airline tickets. This documentation consisted of the stubs of the airline tickets showing the itinerary and cost.

Due to the absence of controls and accounting, it was impossible to determine whether this travel was necessary, proper and performed as claimed. For example, at the time of our audit, documentation was submitted to the USAID for the home leave air travel during March 1982 of the Coordinator and his family. Seven airline stubs representing CFA 443,000 (\$1,305) were presented in support of travel between Ouagadougou and Cotonou, Benin.

In reviewing this transaction, we were told by an OAU employee that this travel had not been performed by air as claimed. Because of the lack of controls and accounting, we requested the Abidjan headquarters of the airline company issuing the tickets to verify whether the tickets had been used. The airline subsequently informed us that five of the seven tickets had in fact not been used. A Miscellaneous Charge Order (MCO) in the amount of CFA 225,600 (\$665) had been issued in exchange for five tickets. There was no evidence that the Coordinator had turned this MCO in to credit the project account. Based on our review, the USAID was informed they should not process this claim.

There are no internal controls over the procurement of airline tickets or accounting for the travel actually performed. In the absence of these controls, it is possible that tickets may have been purchased and exchanged

for MCO's. This practice is one way of diverting project funds for personal use. It is therefore necessary that controls be established over the procurement and use of airline tickets.

#### Impact of Audit Findings

The above findings were discussed with the OAU/STRC auditor. In these discussions, we were informed that the OAU planned to conduct its own audit. The findings developed in this audit are to be used as a point of departure for their own audit. The USAID should therefore make the substance of the above findings of this report available to the OAU/STRC.

This report contains findings which are also reflective of gross mismanagement. In view of this, we question whether the Coordinator should continue to manage this large and complex project. In our view, the USAID and the OAU/STRC in Lagos should determine whether it is in the interest of this project to have the Coordinator continue in his present position.

#### USAID Financial Monitoring Has Been Deficient

The USAID has inadequately monitored the large sums of AID-financed local currency funds provided to the OAU Coordinator's office.

The USAID has the responsibility to ensure that those AID funds transferred to the OAU Coordinator's office are properly used for the purposes intended. Adequate oversight must therefore be exercised if this responsibility is to be carried out effectively. This oversight responsibility, under the project management concept used by AID, is assigned to the USAID Project Officer.

The Project Officer is responsible for monitoring all activities relating to the project, from planning through implementation and evaluation. In regard to the Project Officer's financial responsibilities, AID Handbook 19, Chapter 3H1C and 2 a-c, defines these responsibilities as follows:

"The management system employed by AID places project monitoring responsibility on Project Officers (PO's), who may be located in AID/W Bureaus or overseas in USAID or regional offices. Project Officers represent AID's interests during all phases of project operations and are concerned with ensuring the prudent and effective utilization of U.S. resources."

"It logically follows that the involvement of the PO in the payment process strengthens AID's management system. This involvement provides an opportunity for the PO to verify the contractors' billings/grantees' reports and to evaluate the levels of effort reported in these billings against actual performance."

"PO's are to administratively approve all vouchers submitted under AID direct contracts, grants/cooperative agreements, host country contracts (excluding payments made by bank L/COM's and payments for commodities made directly by AID)."

Though the required administrative approvals were made, we found little evidence they were made on the basis of any substantive review or knowledge of the OAU Coordinator's financial management practices. Had the approvals been made in the manner required, the Project Officer would have realized there was no accounting system in place.

This administrative approval process needs to be strengthened. In our view, the following aspects should be covered by the Project Officer as a part of the administrative approval process:

- ensure the timely reporting of expenditures;
- review the rate of expenditures in accordance with approved budget line items;
- verify on a selective basis that the documentation supports the expenditures;
- approve disbursement of funds for large transactions; and
- verify on a selective basis that the services and commodities procured were received.

The USAID Controller's office also has responsibilities to ensure that the AID funds are used for the purposes intended. In this regard, specific individuals within the Controller's office are designated as Authorized Certifying Officers. Federal law places ultimate personal responsibility on these officers to ascertain the validity and correctness of payments. This certifying responsibility should have dictated that an assessment be made of the Coordinator's financial capabilities and practices, particularly in view of lack of accounting capability in West Africa. Yet not once in the first four years of this project, though the Coordinator's office was only a short distance from the USAID compound, did USAID Controller personnel review the financial practices in the Coordinator's office.

In reviewing the Controller's office we found the following deficiencies:

- The USAID, until recently, had not required the OAU Coordinator to submit budget/expenditure reports with its claims.
- The USAID did not formally advise the Coordinator of the status of the advance account.
- The USAID made separate advances for the project to the OAU Coordinator personally rather than to the OAU organization.
- The USAID did not advise the Coordinator of miscellaneous charges and credits to the advance account.
- The USAID accepted estimates in lieu of paid invoices.

- The USAID did not require original invoices as proof of payment.
- The USAID did not have copies of contracts and consequently it processed payments without proper verification.
- The USAID should have adjusted its records to reflect the transfer of \$5,000 from the OAU/Lagos advance account to the OAU/Ouagadougou advance account.
- There were instances where the account coding was wrong, postings were made to the wrong accounts, dollar equivalents were based upon incorrect exchange rates, and some voucher documentation was missing.

These deficiencies and the failure to make an assessment of the Coordinator's financial capabilities and practices are reflective of poor financial management.

In our exit conference, the USAID indicated that the new Controller, who just arrived, is the first experienced Controller it has had in the past several years. With this new Controller now in place, it expects the financial management of the USAID to improve.

The USAID's financial monitoring of this project needs to be improved. The USAID Controller, in tandem with the Project Officer, should therefore institute effective financial oversight procedures for the project.

#### A Project Evaluation Summary Should Be Prepared

A Project Evaluation Summary as required by AID regulations has not been prepared.

The Project Paper indicated that an indepth evaluation of the project would be performed by consulting scientists and evaluators. This evaluation was to be performed in the third year at which time there would be sufficient progress to enable a meaningful evaluation at the input-output-purpose level. The Paper stated that:

"Also, with over two years remaining in project life, evaluation results can have a real impact on the redesign of the second half of the project."

This planned evaluation was performed in the first half of 1981. The Evaluation Report was issued in July 1981, four years after the project was signed. The evaluation report contains fourteen recommendations for improving the program.

AID Handbook 3, Chapter 5F, requires that a Project Evaluation Summary (PES) be prepared at the conclusion of each evaluation. This form formalizes the course of action to be taken on the recommendations, assigns responsibility for these actions to specific AID officers and provides a system of monitoring implementation. AID had not prepared the PES at the time of our audit.

Our review of documentation provided by AID/W indicates that discussions have been held on these recommendations with various officials of the OAU/STRC and the USAID. This documentation, however, does not indicate the current status of implementation. Therefore, in our view, the PES should be prepared as required.

It should be noted that in the exit conference on this audit, the USAID stated that it thought AID/W would take responsibility for preparation of the PES since it recruited the evaluation team. The USAID also stated that several of the recommendations address policy and planning aspects which AID/W is responsible for monitoring. The USAID is primarily responsible for monitoring operational level activities. The USAID thus felt that this dual USAID-AID/W responsibility contributed to the failure to prepare a PES.

### Conclusions and Recommendations

The administrative and financial practices in the OAU Coordinator's office are seriously deficient. The Coordinator has emerged as the only functioning management element in the project. With virtually total independence, and no oversight exercised by either OAU/STRC Lagos or the USAID, the Coordinator has developed a rather autocratic style of management.

The staff of the Coordinator's office has significantly increased with no detailed justification being provided to the USAID. Though the Coordinator received over \$1.0 million in AID-financed local currencies, no accountant was recruited nor was an accounting system developed. The Coordinator consequently assumed total control over cash and all disbursements made.

The audit disclosed instances of gross mismanagement. These included a cash shortage equivalent to \$27,739 in AID-financed local currencies; irregularities in handling construction; lack of control and accounting for gasoline coupons and travel.

The audit also indicated that AID had not prepared a Project Evaluation Summary which is needed to monitor the recommendations of an AID-financed Evaluation Report issued over a year ago.

Accordingly, we have recommended that:

Recommendation No. 1  
USAID/Upper Volta should (1) determine in conjunction with the OAU/STRC an appropriate mechanism to provide active management elements for the project and determine the proper role therein for the Consultative Committee and the Technical Advisory Committee and (2) request OAU/STRC to institute monitoring controls over the OAU Coordinator.

Recommendation No. 2

USAID/Upper Volta should request the OAU/STRC to review and determine the appropriate staffing needed by the OAU Coordinator's Office to carry out its responsibilities efficiently and economically.

Recommendation No. 3

USAID/Upper Volta should (1) provide no further advance of AID funds until the OAU/STRC establishes an accounting system with appropriate internal controls in the Coordinator's office, (2) review the system to ensure it is adequate for AID requirements and (3) provide the OAU/STRC with the relevant financial data on eligible costs and data for preparation of financial reports needed to liquidate AID advances.

Recommendation No. 4

USAID/Upper Volta should make no further advances of AID funds until the OAU/STRC has settled the unexplained shortage of \$27,739.

Recommendation No. 5

USAID/Upper Volta should request OAU/STRC to institute procedures to ensure that all AID-financed procurement is subject to competitive bidding practices.

Recommendation No. 6

USAID/Upper Volta should request the OAU/STRC to (1) ensure that proper controls are established over gas coupons and (2) discontinue permitting local employees to use the coupons.

Recommendation No. 7

USAID/Upper Volta should request the OAU/STRC to ensure proper internal controls are established over the purchase and use of airline tickets.

Recommendation No. 8

USAID/Upper Volta in conjunction with AID/AFR/RA and the OAU/STRC should make a determination whether it is in the interest of the project to have the OAU Coordinator continue in his present position.

Recommendation No. 9

USAID/Upper Volta should take appropriate action to ensure that the Project Officer and Control-

ler establish and exercise effective financial oversight of the SAFGRAD project.

Recommendation No. 10

USAID/Upper Volta in conjunction with AID/AFR/RA should prepare a Project Evaluation Summary to monitor implementation of the recommendations of the Evaluation Report issued in July 1981.

SAFGRAD PROJECT NO. 689-0393  
 OAU/STRC, Ouagadougou  
 Statement of Cash Position  
 As of July 21, 1982

	<u>Dollars</u>	<u>CFA F Equiv</u>	<u>CFA F</u>	<u>Total CFA</u>
AID advances to OAU/STRC/Ouagadougou	73,596.75		319,510,185	
Less claims allowed	51,049.61		218,577,830	
Outstanding advances	<u>22,547.14</u>	<u>7,650,245*</u>	<u>100,932,355</u>	108,582,600
Add other income:				
Collection received from IITA in advance of payment to Petrovolta et Shell				1,452,040
Unsettled Lagos travel advance to Coordinator	<u>2,000.00</u>			<u>678,600</u>
				<u>110,713,240</u>
Less unclaimed expenses:				
Disallowances	50,977.71		17,466,551	
Less disallowances settled	<u>30,497.41</u>		<u>3,280,304</u>	
Open disallowances	<u>20,480.30</u>	<u>6,948,966*</u>	<u>14,186,247</u>	21,135,213
Claimed/Not paid				31,452,000
Paid/not claimed				11,737,796
Advances to employees and others				382,420
Unclaimed construction expenses				2,189,826
Total unclaimed expenses				<u>66,897,255</u>
Computed cash balance				<u>43,815,985</u>
Actual cash balance:				
Bank				34,238,974
Petty Cash				165,158
Total cash on hand				<u>34,404,132</u>
Unaccounted for funds			CFA F	<u>9,411,853</u>
Dollar equivalent at				<u>\$ 27,739.03</u>

\* Exchange rate at 7/21/82 (cut-off date) was CFA F 339.30 to \$1.00.

EXHIBIT A

Analysis of Construction Expense  
 Claimed by OAU/Ouagadougou  
 (CFA millions)

	Allowed by AID Under Contract	No Contract	Disallowed by AID	Claimed by OAU- Not Processed by AID	TOTAL
ETTC contract (Office building and miscellaneous	35.7				35.7
Materials purchased for ETTC		6.4			6.4
Completion of ETTC contract contract by VE		11.0			11.0
Architect fees paid directly by AID	0.9				0.9
Sub-Total	36.6	17.4			54.0
VE contract (soils lab)			12.0	4.0	16.0
Architect fees for soils lab		0.3		0.2	0.5
Loumbila construction **			1.1		1.1
Other work at Kamboinse:					
Paid by OAU		4.7			4.7
Paid by AID	3.2	1.0			4.2
TOTAL CFA F	39.8	23.4 **	13.1 **	4.2 **	80.5

EXHIBIT B

\* Contract approved by AID, but only CFA F 29.3 million covered by IFB.  
 \*\* Not covered by IFB and not formally approved by AID.

EXHIBIT C

LIST OF REPORT RECOMMENDATIONS

Recommendation No. 1

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LIST OF RECIPIENTS

<u>No. of Copies</u>	
AA/M	1
AA/AFR	5
USAID/UPPER VOLTA	5
REDSO/WCA	1
UPPER VOLTA/DESK	1
AFR/FMS	1
AFR/RA	1
AFR/SWA	1
DIRECTOR/LEG	1
M/FM	1
GC	1
OPA	1
S&T/DIU	4
PPC	4
IG	1
IG/PPP	1
IG/FMS	12
IG/II	1
IG/II/ABIDJAN	1
RIG/A/W	1
RIG/A/CAIRO	1
RIG/A/MANILA	1
RIG/A/KARACHI	1
RIG/A/NAIROBI	1