THE OPERATION MILS MOPTI

PROJECT IN MALI

WAS POORLY DESIGNED AND IMPLEMENTED

Audit Report No. 7-688-83-3
Dated May 3, 1983

Project # 688-0202

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The Operation Mils-Mopti Project was a failure resulting in its termination. Following are some of the significant deficiencies found:

-- The project design was overly ambitious and failed to recognize the limited institutional capabilities of the Operation.

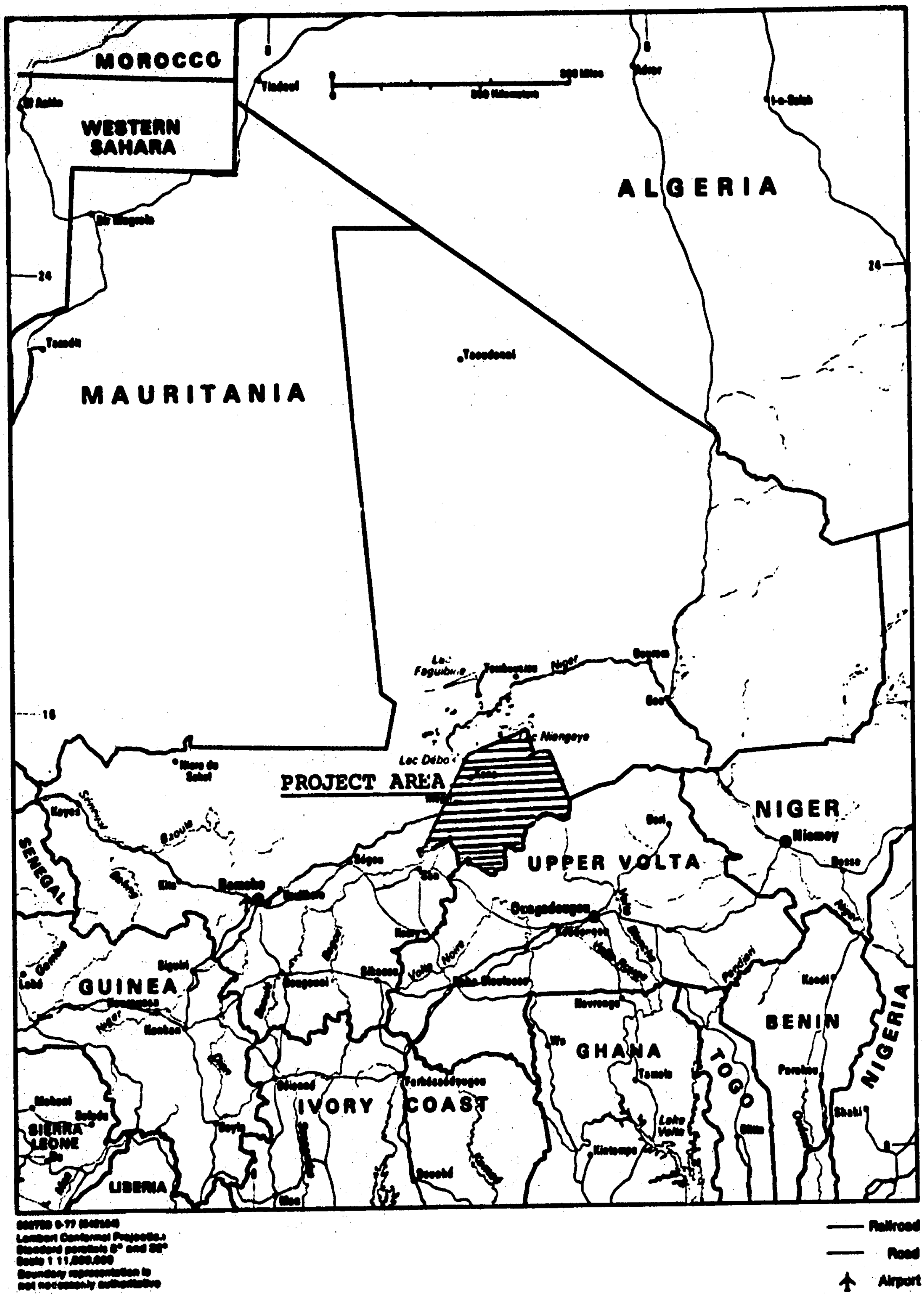
-- Because of poor implementation, few results were achieved after six years of AID support and the expenditure of $9.2 million in AID funds.

-- The project's financial records were in such poor condition that they were unauditable.

-- USAID management was nearly non-existent for the first four years of the project. This absence of direction and guidance in part accounts for the many implementation and financial problems.

In terminating the project, AID needs to dispose of certain equipment and obtain a final accounting of project funds.

Mali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EXECUTIVE SUMMARY

Introduction

Operation Mils-Mopti is a semi-autonomous agency of the Government of the Republic of Mali(GRM) which is responsible for the integrated development of seven geographic sectors in the Fifth Region. This region is Mali's major millet/sorghum producing area and a traditional source of food for the country's food deficit areas. On June 30, 1976, AID and the GRM signed a project agreement, the main purpose of which was to increase food production and marketing in the Operation Mils-Mopti area. AID-funding of $6.3 million was authorized for the first three years of implementation. An evaluation, performed in 1979, indicated that the project needed to be redesigned. The agreement for the redesigned (Phase II) project was signed on April 28, 1980, with $9.9 million in additional funding provided for a four-year period. Under Phase II the purpose of increasing the commercialization of cereals was eliminated as a project objective and the marketing program dropped as a project activity. Other Phase I activities were continued under Phase II, with some of these activities being expanded and new ones added.

The project was terminated in November 1982 at the direction of the Assistant Administrator, Bureau for Africa. Reasons for termination were poor implementation and improper financial practices by Operation Mils-Mopti.

Through June 30, 1982, AID had obligated $12.3 million of which $9.2 million had been expended.

Purpose and Scope

This review was undertaken in response to a request received from the Director, USAID/Mali.

The purpose of the review was to assess the results of the project's activities, to determine whether the project was effectively and efficiently managed and to ascertain whether AID funds were expended properly and in compliance with AID's policies and procedures. The examination included a review of Operation Mils-Mopti's and USAID/Mali's records as well as discussions with appropriate host country and USAID officials. Site visits were made to selected locations in the Mils-Mopti Region.

The Project Design Was Overly Ambitious

Phase I of the Operation Mils Project was a large and ambitious undertaking to increase the productivity and commercialization of cereal crops in the Mopti Region of Mali. The project consisted of a number of activities, including: applied research; providing agricultural implements and inputs to farmers on an in-kind credit basis; repair and improvement of certain priority roads; a program of village water well development and improvement; training and equipping of blacksmiths; and procurement of surplus grain at the GRM official price. Few, if any, results were achieved under these activities. A project evaluation attributed this lack of results to:

— a hastily written Project Paper which contained insufficient detail, and guidance on how project objectives were to be implemented;

-- too much stress being placed on the marketing aspects of the project. In this regard, the commercialization program was not popular with farmers, since the official prices were traditionally lower than the parallel market. To make matters worse, coercion was applied at times to fulfill the marketing quotas.

In redesigning the project, the controversial commercialization program was eleminated. All other activities were retained and considerably expanded in scope. New activities were also added, including formation of village associations, operation of millet mills as a means of revenue generation and coordination of a functional literacy program with the Operation's extension program. As designed, Phase II was a far more ambitious and complex undertaking than Phase I. Yet, like Phase I, it contained the same basic deficiency: insufficient detail and guidance on how the activities were to be implemented. Again the consequence was that few results were achieved.

Other design deficiencies also contributed to this lack of progress, one being the failure of the Project Paper to recognize the Operation did not have the capability to implement the project. In over-assessing the Operation's management capabilities, only limited technical assistance was provided (page 3).

<u>Project Results Were Minimal</u>

There are few tangible indications after six years of AID support that any of the activities under this project have had much success. This lack of results is in a large part due to the Operation's lack of capability to implement this large, complex project.

-- Little was done to increase agricultural production through the promotion of a technical package, consisting of animal traction, implements, fertilizers and better varieties of seeds. No significant adaptive research was undertaken to modify the package for local conditions. Although the extension staff was increased, many agents were not technically qualified nor did they receive the necessary training. Funds for the credit program, through which the inputs for the technical package were to be provided, were diverted for other purposes. A system of blacksmiths to service the farm implements was not established (page 6).

-- The rural road improvement activity fell short of its planned objectives due to poor design, delays in procuring equipment, maintenance problems, and the Operation's untimely financial support of the road construction unit. Thus, of 307 kilometers (reduced from 468) to be improved, only 100 kilometers were completed (page 13).

-- The building construction activity was poorly implemente resulting in the waste of project funds for structures either not completed or unusable. For example, of the 18 warehouses to be constructed, 5 were not built, 3 were not finished, 3 collapsed, and 2 had their roofs blown off. Of the remaining 5 warehouses in use, we inspected 3 which were in the process of crumbling due to serious structural deficiencies. In awarding these contracts, the Operation did not adhere to the required procurement provisions and AID did not provide any oversight or guidance (page 15).

-- The Operation did not financially support the functional literacy program which was incorporated into the project in Phase II. The program was consequently in the process of shutting down (page 17).

-- Though 100 grinding mill operations were to be established in the project area, the Operation recognized, after testing one mill, that it did not have the capability to carry out this activity. This activity was thus abandoned (page 18).

-- A total of 54 open wells in villages with serious water problems were to be improved. Because of implementation problems, only 9 were improved before this activity was discontinued (page 18).

The Project's Local Currency Records Were Not In Auditable Condition

The financial practices used by the Operation have resulted in an accounting nightmare. The Operation received the equivalent of $5.7 million in local currencies through June 30, 1982. Because of gross intermingling of funds and the lack of proper records and documentation, we were unable to account for the use of the funds. An augmenting factor was the flagrant circumvention of financial controls. In view of this situation, we have recommended that AID recover through refund action $784,947 pertaining to the agricultural credit fund and $108,213 pertaining to the Mobylette fund. A full accounting, consisting of a complete and segregated set of reconstructed accounts, needs to be performed by the GRM for the remaining $4,825,282. If this accounting cannot be provided, then this amount should also be recovered (page 19).

The Operation Has Not Used Prudent Procurement Practices

The failure of the Operation to exercise prudent procurement practices has resulted in procurement at unreasonable prices and inappropriate for project purposes. Many procurement transactions were of a questionable nature, involving mismanagement and possible fraud.

Allegations were made that the Operation intentionally used poor financial practices in order to carry out the many improprieties. The GRM Inspector General's Office is currently investigating these allegations. Preliminary findings have disclosed strong indications of mismanagement and malfeasance by the Operation (page 26).

Project Management Was Poor

USAID management was nearly non-existent for the first four years of the project. This absence of direction and guidance in part accounts for the many implementation and financial problems. Although subsequent improvements in project management were made, the project was in such a disastrous state of affairs that these efforts were not enough to correct the many deficiencies and to get the project back on its planned course (page 30).

Summary of Management Comments

A draft of this report was reviewed by USAID/Mali which generally agreed with the findings and recommendations. Its comments were duly considered in the final preparation of the report.

Conclusions and Recommendations

The Operation Mils-Mopti Project was a failure, resulting in its termination. The many implementation problems were due in part to an overly complex and ambitious project design. The design also failed to recognize the Operation had only limited institutional capabilities and thus provided little technical assistance. USAID's failure to provide adequate guidance and direction also contributed to the difficulties of the project.

In terminating the project, AID needs to make provision for disposing ot certain equipment and obtaining a final accounting of project funds. In this regard, the report contains four recommendations listed in Exhibit I to this report.

BACKGROUND

Mali, located in the Sahel, is one of the least developed countries in the world. Its per capita gross national product of $120 is one of the lowest in Africa. AID estimates rural per capita income in cash and kind somewhere between $50 to $75. Agriculture and livestock constitute Mali's most important economic sector and the one with the greatest potential for growth. The sector contributes about 64 percent of Gross National Product, employs 90 percent of the active labor force and is the source of nearly 99 percent of the country's export earnings.

Operation Mils-Mopti is a semi-autonomous agency of the Government of the Republic of Mali (GRM) which is responsible for the integrated development of seven geographic sectors in the Fifth Region. This region, located over 600 kilometers from the nation's capital in the central part of the country, is Mali's major millet/sorghum producing area and a traditional source of food for the country's food deficit areas, particularly the Sixth and Seventh Regions (see map).

On June 30, 1976, AID and the GRM signed a project agreement, the main purpose of which was to increase food production and marketing in the Operation Mils-Mopti area. AID funding of $6.3 million was authorized for the first three years of implementation.

An evaluation, performed in 1979, disclosed that the marketing objective of the project was harmful to the farmer, since official producer prices of grain were low in comparison to prices in the "parallel market". Based on this and other deficiencies, the USAID decided that the project needed to be redesigned. The agreement for the redesigned (Phase II) project was signed on April 28, 1980, with $9.9 million in additional funding provided for a four year period. The purpose of increasing the commercialization of cereals was eliminated as a project objective and the marketing program was dropped as a project activity. Other Phase I activities were continued under Phase II, with some of these activities being expanded and new ones being added. Phase II thus comprised the following activities:

— Applied Research

  Purpose: To test results and recommendations from local as well as external research organizations in actual farmers' field trials for confirmation of adaptability and utility to the local conditions.

— Demonstration and Extension of Improved Farming Methods

  Purpose: To demonstrate proven practices in pilot farmers' fields such as use of optimum plant populations, timely planting and weeding, seeding in rows, rotations, use of natural manures, compost, fertilizers, seed treatments, improved seeds, and plowing and cultivation with animal drawn equipment. It was expected that other farmers would be reached through the pilot farmer.

— Input Supply, Distibution and Credit

Purpose: To make available to farmers agricultural tools and implements as well as production inputs on a cash or credit basis. Under Phase II, the formation of village associations through which credit and supplies may be supplied to farmers was added as well as local retail stores.

— Training Program

Purpose: To upgrade extension agents on a continuing basis as new practices become available for demonstration. To train and equip blacksmiths in order to facilitate local maintenance and fabrication of tools and material. Under Phase II, the coordination of the functional literacy program was added.

— Rural Infrastructure and Administrative Support

Purpose: To repair and improve certain priority roads in order to provide access to the area. To construct offices, housing and warehouses. To establish a program of village water well development and improvement. The establishment of millet mills as a means of revenue generation for the Operation was added as an activity for Phase II. Both, Phase I and Phase II, were to include administrative support to the Operation in the form of technical assistance and operating costs.

The project was formally terminated in November 1982, at the direction of the Assistant Administrator, Bureau for Africa. Reasons for the termination were poor implementation and improper financial accounting practices by Operation Mils-Mopti.

Through June 30, 1982, AID had obligated $12.3 million of which $9.2 million had been expended (see Exhibit A).

Purpose and Scope

This review was undertaken in response to a request received from the Director, USAID/Mali.

The purpose of the review was to assess the results of the project's activities, to determine whether the project was effectively and efficiently managed and to ascertain whether AID funds were expended properly and in compliance with AID's policies and procedures. The examination included a review of Operation Mils-Mopti's and USAID/Mali's records as well as discussions with appropriate host country and USAID officials. Site visits were made to selected locations in the Mils-Mopti Region.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

THE PROJECT DESIGN WAS OVERLY AMBITIOUS

The Operation Mils-Mopti project was designed at a time when the USAID was in the early stages of developing its program in Mali. With a relatively large quantity of funds to program, there was pressure to get the project started as quickly as possible. This pressure and hastiness resulted in an overly ambitious and poorly designed project.

Phase I of the Operation Mils Project was a large and ambitious five year (1976-80) effort designed to increase the productivity and commercialization of cereal crops in the Mils-Mopti Region of Mali. To achieve this purpose, the following activities were to be undertaken:

- Applied research, demonstrations through a pilot farmer system, use of improved seeds and tools, improved handling of harvest and better marketing organizations.
- Making available to farmers agricultural tools and implements as well as production inputs on a cash or credit basis.
- A training program to upgrade staff and extension agents.
- The repair and improvement of certain priority agricultural roads.
- A program of village water well development and improvement.
- Training and equipping of blacksmiths.
- Procurement of surplus grain in project areas at the GRM official price.

Few, if any, results were achieved under any of these activities during the three years of Phase I. A project evaluation, performed in mid-1979, attributed this lack of results in part to:

- a hastily written Project Paper which contained insufficient detail and guidance on how the project objectives were to be implemented.
- too much stress being placed on the marketing aspects of the project.

In regard to the marketing aspect, the Operation, as agent for the Malian Office of Agricultural Marketing Products (OPAM), had the responsibility to purchase cereals from farmers at the GRM's official prices. The Operation set quotas for farmers on the amount of grain to be sold at the official prices. This commercialization program was not popular with farmers, since the official prices were traditionally lower than the parallel market. To make matters worse, coercion was applied at times to achieve the quotas. The quotas and use of coercion acted as a disincentive for farmers to increase grain production (see Exhibit B).

The evaluation concluded that the project should be redesigned and a new Project Paper prepared. In redesigning the project, the controversial commercialization of cereal crops objective was eliminated. Phase II retained those non-commercialization activities under Phase I, but with some modifications. The research activity was to broaden its efforts from a focus on varietal improvements to full productions system orientation. The agricultural sales activity was to be expanded in size to include: providing credit for traction animals, extending credit on a group basis, and establishing retail stores at the village level. The agricultural extension activity was expanded to include the servicing of pilot villages and included a program to construct housing units for 23 extension personnel. In addition, the design team added the following new activities to the project:

- Formation of village associations through which credit and supplies may be supplied to farmers;
- The operation of millet mills as a means of revenue generation;
- The coordination of a functional literacy program with the Operation's extension program.

As designed, Phase II was a far more ambitious and complex undertaking. Yet, like Phase I, it contained the same basic deficiency: insufficient detail and guidance on how the activities were to be implemented. As a result, there were few benefits accruing to the farmer from the numerous activities. The food production activities, such as research, extension and credit, have not contributed to increased food production; the road construction program was poorly planned and implemented; the well construction and grinding mills activities were failures and abandoned; little effort was expended on the functional literacy program; and the forming of village associations was not initiated.

When we asked the Director of Operation Mils-Mopti why so few results were achieved, he stated that the project was much too complex and overly ambitious. This was a judgement we had also reached. There were other factors as well which contributed to the lack of progress. One factor was the failure of the Project Paper to recognize that Operation Mils did not have adequate management capabilities to implement the project. In over-assessing the management capabilities of the Operation, the Project Paper called for only limited short-term technical assistance. Very little of this assistance was in fact provided. In addition, the USAID project officer was located at the USAID in Bamako, which was too far removed from the project site for monitoring purposes. AID consequently provided the funding for this large, complex project without adequate provision for technical assistance or oversight.

Another factor was the faulty assumptions regarding the project's financial viability. The Phase I Project Paper, for example, stated that no external financing would be required after five years. The Project Paper for Phase II assumed the Operation would be able to absorb all recurrent costs by 1986, based on the following assumptions:

-- All project financed contractual extension agents would be replaced with GRM salary employees.

-- Sufficient revenues would be generated from (a) approximately 100 millet processing machines, (b) commissions and interest earned on agricultural sales, (c) commissions earned on marketing of cereals and, (d) income earned from the marketing of peanuts.

None of these assumptions proved to be valid. The contractual extension agents have not been replaced by GRM employees; the millet processing machine venture was a failure; sales of agricultural implements and inputs have not generated any profits; marketing of cereals has decreased substantially, with little if any income generated from this source; and the marketing of peanuts was found not to be feasible. Consequently, when the project was terminated in November 1982, we found the Operation had not made any progress in any of its revenue producing activities that would generate income to meet recurrent costs.

This is the second project we have reviewed in Mali within the past year, the other being Operation Haute Vallee (No.7-688-82-1). Both are large and complex integrated rural development type projects, consisting of many different sub-project activities. These projects have been overloaded with ambition and consequently have placed unrealistic burdens on the institutional and financial resources of the GRM's implementing agencies. The projects, moreover, have been developed on the basis of faulty assessments and assumptions. Therefore, in our view the project design process in Mali needs to be improved.

PROJECT RESULTS WERE MINIMAL

There are few tangible indications after six years of AID support that any of the activities under this project have had much success. Few results have been achieved in those activities relating to food production. Road construction fell short of its planned target. Building construction had many shortcomings. And little was achieved in functional literacy, forming village associations, establishing profitable grinding mill operations and well construction. Salient comments on these activities are presented below.

Increased Food Production Has Not Been Achieved

There is little evidence that food production has increased through the efforts of this project.

There is a concensus among AID and other donors that if agricultural production is to increase, efforts must be made to introduce modern farming techniques. Those AID projects relating to food production, particularly cereal grains, of which this is one, are thus very similar. Technical packages have been developed which are based largely on animal traction and the use of farm implements, fertilizers, pesticides and better varieties of seeds. These inputs are then to be provided to small farmers on an in-kind credit basis.

Through the introduction and adoption of the technical package it is believed that food production increases can be achieved. This was to be achieved by the following components of the project:

- Upgrading the facilities at the Seno Research Station to include an animal traction research facility, and conducting trials and testing of crops related to the technical package.
- Training for the extension agents in order that the technical package and practices can be extended by them to the village farm level.
- Providing training for blacksmiths in order for them to maintain and improve farm implements.
- Forming village associations to decrease the operating costs of the credit program and increase further the number of farmers reached by the extension agents.

Only short-term technical assistance was to be provided.

1. No Significant Research Has Been Developed

Little has been accomplished under the project research activity to benefit the cereal crop farmers in the project area.

Phase I of the project included an agricultural research activity to test results and recommendations from local as well as external research organizations by conducting field trials for confirmation of adaptability and utility to local conditions. Little or nothing was done under this activity.

Phase II of the project continued the research activity. Facilities at the Seno Research Station, located in the project area, were to be upgraded. The station was to develop an improved system of production covering an assortment of practices and techniques, such as association of crops, intercropping, sequential cropping, rotation, managed fallow, and mechanization by animal traction. The project paper recognized the need for improving the technical package being offered to farmers in the Mopti (Fifth) Region.

The station, which is a part of the Mali National Research System, received some project operating expense support. Only minimal inputs were provided to upgrade the facilities of the station. Improved housing and renovations of existing structures, provided for in the project agreement, never materialized because of delays in developing consttuction plans. An electric pump was provided for the station's well in 1980, but a generator to run it was not furnished until July 1982. The generator has never been operational, since it was not new and missing numerous parts.

No worthwhile research has been developed by the Seno Research Station that is of any direct benefit to the project area farmers. Officials at the station informed us that their research is primarily aimed at developing new millet seed varieties. This research has thus far not resulted in an improvement over the local varieties currently being used by farmers in the project area. No research was undertaken for improving the technical package.

The Project Paper stressed the need to bridge the gap that has traditionally existed between research and extension. The project agreement provided that regular visits to the station by extension staff would be arranged and station personnel would periodically present findings to extension agents. We were informed that no regular visits to the station were made by the Operation's extension staff nor did station staff present their findings to extension agents.

The project agreement provided that over 200 farmer demonstration trials would be conducted during the life of the project. Two field trial specialists were provided by the project for this activity, each serving one year. With the exception of some positive results with Tilemsi Phosphate, nothing of consequence was developed under this field trials program.

Very little has been accomplished under this research activity. The Research Station has not developed any improved seed varities and has not expended any efforts on improving the farm production system which would be of direct benefit to the project area farmers. The field trials conducted produced few results. No efforts were made to bridge the gap between research and extension which would result in research developments being extended to the farmer, although in this respect there has been very little developed to be extended. Thus, the technical package being offered to farmers in the project area is virtually the same as that offered when the project was initiated. A short-term agronomist stated in his recent report that "Generally it may be stated that the so called "Technical Package" has not been of much value to peasant farmers in the fifth region."

2. Dogon Vegetable Production

The activity to extend market gardening in the Dogon Plateau area was almost totally ignored.

Phase I of the project provided for applied research and extension demonstration activities to be extended to market gardening in certain areas of the Dogon Plateau where a significant portion of the area's population depends upon intensified vegetable gardening for marketing. Phase II continued this activity with the focus initially on the need to increase the supply of water and improved efficiency of water utilization for expanded irrigated production. Vegetable, storage, marketing and terracing activities were also to be studied to determine profitable interventions.

Very little was implemented under this activity. Phase I consisted of surveys and studies on agricultural practices and market prices. Under Phase II, a short-term specialist financed by the project spent six months (October 1979 to March 1980) on this activity. A report was on file at the USAID, but there is no indication that any action was taken on any of the recommendations made in the report. Officials at the Operation knew that the specialist had spent time in the Dongon area, but were unaware as to what he had accomplished and had never seen his report. The Operation also did not seem to show much interest in this activity. In this regard, the Director of the Operation informed us that the people living in the Dogon Plateau area are very traditional and thus not amenable to agricultural innovations.

3. The Extension System Has Not Been Upgraded As Planned

Although the Operation's extension staff has increased substantially, many of the extension agents are not technically qualified, training provided to extension agents has been inadequate, and contractual extension agents have not been replaced by GRM functionaries.

Phase I of the project was to provide a training program at the local level to upgrade extension agents and to increase the number of extension agents in the project area. In addition, demonstrations of proven practices in farmer fields through the pilot farmer system was to be applied under the close supervision of agents.

The Phase I Evaluation concluded that the method of training, provided to upgrade the abilities of the extension agents, was inadequate. Training consisted of one to three day seminars for field agents at the beginning of the agricultural cycle each year. This type of training had minimal impact on improving the ablities of the agents. The number of extension agents was increased substantially, but the additional staff hired consisted primarily of contractual employees (encadreurs) who did not meet the minimum requirements for extension agents. The pilot farmer system was implemented, however, the evaluation questioned this approach because of the small sample of population reached through this method.

Based on the Phase I Evaluation, Phase II of the project was to provide for intensive in-country training for extension agents and external short-term training for five extension supervisors. The number of "moniteurs" (GRM functionaries who have graduated from an agricultural training institution) assigned to the Operation would increase by ten per year and the number of "encadreurs" would be decreased at a corresponding rate until their number reached zero. The pilot village approach was to be augmented in order to reach more of the farmers in the project area. Current research findings and improved technical packages would be made available to extension personnel for transmittal to farmers on a continuing basis. Construction of 23 housing units was planned for extension personnel.

Very little training of extension agents was accomplished under Phase II. A total of 33 "encadreurs" were trained by the Operation. The Phase II Evaluation concluded that this training was inadequate because of a lack of participation by experienced experts, a complete lack of training materials and equipment, and poor facilities provided for the training. No external training was provided for supervisory personnel. While the number of moniteurs did increase during Phase II from 107 to 121, the number of encadreurs also increased from 121 to 152. The Director of the Operation stated that the GRM was unable to replace encadreurs with moniteurs at the rate planned because of the inability of agricultural training institutions to produce sufficient graduates.

The Operation established 12 pilot villages in the project area, each under the monitorship of an extension agent. We visited three of these villages and found that each one of them had an Operation extension agent assigned to render assistance to the pilot villages. Agricultural inputs on credit were made available to farmers in these pilot villages. Villagers with whom we talked seemed to be generally satisfied with the program and the assistance rendered by the extension agents. Extension personnel were of the opinion that pilot villages were doing better than non-pilot villages. Procedures, however, were never established to measure the success of the pilot village approach. Consequently, comparative production statistics are not available to measure increased crop production; nor is data available on the adoption rate of the technical package or its economic viability. Therefore, any success with the pilot village approach cannot be substantiated.

Planning was never initiated for the construction of housing units for extension personnel and thus, this activity was never implemented.

The upgrading of the Operation's extension system as envisioned by the project design never materialized. Training of extension agents was inadequate. The GRM has not been able to provide qualified agricultural graduate functionaries to replace unqualified contractual extension agents. Extension agents have not been provided with improved agricultural techniques that could be transmitted to farmers in the project area. The extension system appears to have had some success with the pilot village approach, but this cannot be supported because of a lack of comparative statistical production data.

4. Little was Done Under the Blacksmith Program

The equipping and training of blacksmiths fell short of project targets.

Phase I of the project provided for a blacksmith program to improve local blacksmith capabilities for repairing agriculture equipment. The project was to provide training and a starter supply of working materials to blacksmiths in the project area. Phase II continued the blacksmith activity and was to provide additional training for two professional blacksmiths employed by the Operation. These blacksmiths in turn would train 40 local blacksmiths on site over a three-year period.

Very little was accomplished under this activity during Phase I. Two individuals were trained, 19 local blacksmiths were identified for participation in the training program, and commodities to be supplied to blacksmiths were procured. During Phase II, one professional blacksmith employed by the Operation was provided additional training and 22 local blacksmiths were given partial training. Only six blacksmiths have been equipped with essential tools.

Price was a problem in equipping blacksmiths with equipment procured under the project. The equipment, purchased in the US, was very expensive. Though blacksmiths could purchase this equipment on credit terms, they had to make a downpayment of one third of the cost. Very few blacksmiths had the financial capability to do so.

There was a problem with materials procured in the U.S. These materials were not appropriate to make replacement parts. We visited one of the trained blacksmiths in the Bankass Sector who was doing a fairly good business. He stated the acquisition of good materials was difficult and that his work would last longer if he were able to obtain better quality materials. The Bankass Sector Chief informed us that the other five trained blacksmiths in the Sector are also having the same problem.

The initial training of 22 blacksmiths and the equipping of 6 blacksmiths fell far short of the project objective of training and equipping 40 blacksmiths in the project area. It would appear that a greater degree of success would have been obtained under this activity if blacksmith equipment could have been procured at more reasonable prices and appropriate materials had been procured.

5. The Agricultural Credit Sales Activity Has Not Been Successful

The Operation has diverted substantial amounts of the Credit Fund Account cash reflows to finance its operating expenses. A substantial amount of loans outstanding are in arrears. Extending credit terms to include the financing of traction animals was limited to two pilot villages. Group lending and the establishment of retail stores at the village level were not implemented.

Phase I of the project provided for an agricultural sales program to make agricultural implements and production inputs available to farmers on a cash or credit basis. These credit sales were to be repaid over a three year period, including a one year grace period, at an interest rate of four percent. The Operation was to procure materials and establish stocks of production inputs at points accessible to farmers. Phase II of the project provided for the expansion of the Credit Fund. Credit terms were to be made available for the purchase of traction animals and fertilizer. Experiments were to be made with group lending and establishing retail stores at the village level. As of September 30, 1982, the project had made $784,947 available for this activity.

Sales Activity

The implementation of the agricultrual sales activity during the past three years has taken a reverse course. Instead of increasing sales of agricultural commodites and making more credit available to farmers, as was planned in the Project Paper, implementation of this activity by the Operation has resulted in decreasing sales with limited credit currently available to farmers in the project area. The following schedule of sales of agricultural inputs since project inception illustrates this point: (Malian Francs in millions)

SALES

	CASH	CREDIT	TOTAL	% CREDIT of TOTAL SALES
Prior 1978/79	42,710	176,428	219,138	80.5
1978/79	28,841	85,737	114,578	74.8
1979/80	26,452	107,177	133,629	80.2
1980/81	32,774	92,905	125,679	73.9
1981/82	56,543	40,381	96,924	41.7
1982/83	34,466	2,305	36,771	6.27
Total	221,786	504,933	726,719	68.7

The specific reason for the substantial decrease in cash and credit sales is not apparent, but the following factors probably can be attributed to the decline.

Diversion of Credit Funds

Payments made by farmers for agricultural credit and cash sales have been diverted and used by the Operation to fund its operating expenses. Because of the poor condition of the Operation's financial records, we were unable to determine the exact amount of collections diverted for this purpose. However, using data at the Operation, we estimated that approximately MF 276 million ($612,418) has been diverted from collections (in spite of USAID's attempts to control project local currency expenditures) and used for other purposes as calculated below:

		(MF 000)
Total Sales		726,719
Less Loans Receivable 9/30/82		164,384
Total Collections		562,335
Reimbursements by AID for purchases of Agricultural Commodities		354,888
Total that should have been deposited to the Credit Fund Account:		917,223
Purchases paid from Credit Fund Account:		
Total Purchases for Agricultural Commodities	858,000	
Less Accounts Payable 9/30/82	220,365	637,635
Theoretical Cash Balance Credit Fund Account at 9/30/82		279,588
Actual Cash Balance Credit Fund Account 9/30/82		4,000
Credit Fund Account Collections Diverted		275,588

Loan Repayments in Arrears

Farmers' loans outstanding include a substantial amount of accounts in arrears. The status of loans outstanding as of September 30, 1982, was as follows:

Aged by Growing Season		(MF 000)
Prior 1979/80		50,411
1979/80		36,368
1980/81		46,446
1981/82		28,854
1982/83		2,305
	Total	164,384

We observed during our visits to field locations that generally the system of record keeping maintained by extension agents was adequate to record credit sales and collections. However, the system does not provide for identifying accounts that are in arrears. Summary records are maintained by growing seasons which include short-term as well as long-term loans. In order to determine accounts overdue, it would be necessary to analyze each extension agent's detailed account ledger. Agents stated that about 30 percent to 60 percent of the farmers in their respective areas were delinquent on payments. The status of outstanding loans above shows MF 86,779,000 (53 percent) outstanding for the growing season 1979/80 and prior. Since long-term loans are for no more than three years, probably most of this amount would be in arrears. Taking into account payments which might be in arrears for growing seasons subsequent to 1979/80, the delinquency rate would probably be well in excess of 50 percent.

Credit Fund Viability

To make the agricultural sales activity viable, the project provided that the costs of agricultural inputs would be marked-up to cover transportation and handling costs. Credit sales would also include an interest charge. The Operation has included a factor to cover these costs on the price charged to farmers for agricultural inputs. The following schedule shows that the Operation has produced a gross profit on agricultural sales:

		(MF'000)
Sales		726,719
Purchases	858,000	
Less Inventory 9/30/82	191,143	666,857
Gross Profit		59,862

However, if uncollectable loans were taken into account, there probably would not be any gross profit.

Credit for Traction Animals

The extension of credit for traction animals was limited to two of the pilot villages. These villages were provided work oxen in 1980 on five year credit terms. The Operation considered this an experimental endeavor and was undecided if this activity should be expanded. The Phase II Evaluation concluded that the need for animal traction credit was unclear based on existing data. Additional studies on this subject would be required in order to determine if this would be a worthwhile venture. The project provided for an insurance fund which would reimburse farmers for animals that died; however, this fund was never established.

Other

The Phase II project paper provided for short-term technical assistance to improve efficiency in the credit and supply system. This assistance was never provided.

Experiments in group lending and establishing retail stores at the village level were never implemented.

The agricultural sales activity under Phase I showed some successes with substantial increases of agricultural implements and inputs being made available to farmers in the project area. Gains accomplished under Phase I of the project have been dissipated under Phase II. The project plan to expand this activity was not met. In fact, this activity has deteriorated to the point where there is only a token agricultural sales function remaining under the Operation.

The Road Improvement Program Was Poorly Planned

The rural road improvement activity fell short of its planned objectives due to poor project design, delays in procurement, maintenance problems, and the Operation's untimely support of the road construction unit.

Rural road improvement within the project area was considered essential to the goal of increasing food production in the project area. Improvement of 460 kilometers (later reduced to 307 kilometers) of road was to provide a more effective means for the timely delivery of agricultural inputs and for the commercialization of grain. As of September 30, 1982, only 100 kilometers have been completed at a cost of nearly $2.6 million.

A major obstacle to the successful implementation of this activity was the inadequacy of the Phase I design. The activity was designed without any socio-economic analyses of road selection, design standards and appropriate priorities. As a result, some of the roads originally planned for improvement were not consistent with population distribution and economic activity of the area. All roads were to be constructed to the simplest Malian Class C standards, regardless of economic importance and volume of traffic. Despite the general isolation of the area, the upgrading of the key access route was given last priority.

In October 1977, ten months after construction was to have begun, a socio-economic analysis was finally executed and the decision was made to change the objectives and implementation plan. Road standards were upgraded to Malian Class B and B1, priorities were reset, and the number of kilometers to be improved was reduced to 307 kilometers in order to stay within budget limits.

The Project Paper for Phase I assumed that the Road Brigade would be working a relatively easy terrain and would not have to be heavily equipped. The conditions in the area, however, proved to be quite difficult because of sandy and/or rocky terrain and the lack of readily available sources of laterite and water. As a result, the equipment procured under Phase I was not adequate and appropriate for these difficult construction conditions and the revised upgraded construction standards. Therefore, additional project funds for equipment were provided under Phase II. As of September 30, 1982, $1.6 million had been expended for road construction equipment.

The road construction activity was delayed in getting started due to procurement problems. Work was to have begun in January 1977 but, because of insufficient USAID personnel to follow-up on procurement matters, orders were placed late, equipment arrived late and construction did not begin until June 1978. Progress was slow once construction began because of the inadequacy of the equipment. For example, only one water truck was provided to transport water over a distance of 100-120 kilometers and an insufficient number of vehicles were provided to transport laterite over an average distance of 20-40 kilometers. Road compaction had to be carried out through the use of trucks because the compactor ordered for the project did not arrive in Bamako until January 1981, and then was not delivered to the project site. Metal pipe and gabion netting did not arrive until late 1980, which resulted in further lost time, because it was necessary to rework previously completed roadwork.

Delays were also encountered because of an ineffective equipment maintenance program. The rocky terrain of the first 40 kilometers of construction work seriously affected the equipment, resulting in frequent breakdowns. The Road Brigade did not have the space nor resources to handle an extensive inventory for the melange of vehicle models in use. Nor were the five local suppliers able to handle the servicing requirements. Even minimum inventory requirements were not kept because of the Operation's lack of operating funds. As a result, equipment was often dead-lined due to the lack of spare parts. The present condition of this equipment is described in Exhibit C.

The untimely availability of operating funds for this activity also impeded progress. The Road Brigade was established under the direct control of the Operation which was to provide it with the needed operating funds. Under this arrangement, road construction suffered whenever the Operation experienced cash flow problems from its inability to meet AID financial requirements. A total of almost two years of inactivity can be attributed to the unavailability of adequate operating funds. As of September 30, 1982, operating costs for construction of the 100 kilometers of completed roads amounted to nearly $1 million.

The quality of road construction appears to be adequate. The 100 kilometers of completed road is providing access to one of the traditionally important food production areas in Mali. Some sections of road, however, are beginning to deteriorate due to the lack of funds to carry out road maintenance. The Malian Public Works Department does not have sufficient budgetary resources to complete and maintain the road. It therefore announced that the Road Brigade would be disbanded at the end of December 1982.

After six years of operation, only 100 kilometers have been completed, well short of the revised target of 307 kilometers. In view of the decision to terminate the project, USAID should take appropriate action to dispose of the project road construction equipment. Accordingly, we have recommended that:

> <u>Recommendation No. 1</u>
> USAID/Mali should take appropriate action to dispose of the project's road construction equipment.

<u>The Building Construction Activity was Poorly Planned and Implemented</u>

The Phase I building construction activity resulted in a waste of project funds for structures either never completed or largely unusable. None of the construction planned under Phase II was started.

Under Phase I of the Project, $248,000 was budgeted for the construction of unspecified buildings and facilities. No implementation plan was included to establish how and by whom the activity was to be carried out and monitored. Nor were any additional guidelines provided to the Operation through the issuance of Project Implementation Letters.

On October 21, 1976, through the issuance of Project Implementation Letter No. 1, the USAID notified the Operation of the first year's budget approval, of which MF 124 million was earmarked for building construction. The Operation claimed and USAID reimbursed MF 209,195,200 ($464,878) under the building construction line item.

Article C, Section C3 of the Grant Agreement states:

> (a) "The Grantee will furnish to A.I.D. upon preparation, (1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Grant, including documentation relating to the pre-qualification and selection of contractors and to the solicitation of bids and proposals....
>
> (c) Contracts and contractors financed under the Grant for engineering and other professional servi~~s, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract...."

Furthermore, Article C. Section C.2 states:

> "No goods or services may be financed under the Grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing."

The implementation of this activity was executed entirely by the Operation without regard to these procurement provisions. No oversight was exercised by the USAID over this activity nor did the USAID provide any formal guidance to the Operation on how it should be carried out. We were unable to locate any documentation at the USAID relating to the prequalification and selection of contractors, solicitation of bids, plans, specifications, construction schedules and contracts. The records furnished to us by the Operation indicated no USAID involvement or approval of any facet of the construction activity. In fact, the records at the Operation indicated that most contracts had been executed more than one year prior to the effective date of the Grant Agreement. We found no evidence of any technical progress reports prepared by the Operation, nor any USAID field trip reports on construction site inspections. Reimbursement vouchers were apparently approved for payment without the benefit of any detailed supporting documentation.

The Operation's inability to implement this activity led to disastrous results. Local firms contracted to construct the buildings did not have the capability to perform the work. For example, the Operation contracted for the construction of 18 warehouses. Five were not built, three were not finished, three collapsed, and two had their roofs blown off. Of the other five, we inspected three and found they all had serious structual weaknesses and were beginning to crumble. Exhibit D contains a listing of building construction performed under Phase I.

Phase II of the Project also included a construction activity. The Phase II project design for construction was more specific, and contained a detailed implementation plan. In order to avoid the problems experienced under Phase I, a condition precedent for the disbursement of construction funds was included in the Grant Agreement. No construction funds were to be released until the GRM furnished to A.I.D. detailed plans, specifications and bid documents, and an executed contract with a firm acceptable to A.I.D. for such services.

The Phase II construction activity was never implemented due to such financial problems as the Operation's failure tc submit and adhere to budgets, failure to submit timely reimbursement requests and its lack of an acceptable accounting system which would fulfill the certification requirements of Section 121(d) of the FAA.

Functional Literacy Activity Has Stalled

A functional literacy program, funded under a separate USAID project, was implemented in the Mopti zone from 1978 thru 1981. Phase II of the Operation Mils Project provided funding for the continuance of this functional literacy program. The Operation was to assume the operating expenses and coordinate the functional literacy program with its own extension program. It was expected that the organizations developed by villagers under this program would form a nucleus for the village association activity.

The Operation has only provided materials and rudimentary equipment for yearly preparation and publication of class materials. Other than that, very little effort has been expended by the Operation on this activity. Operation officials cited financial restraints as the reason it has been unable to effectively carry out this program. Without the support of the Operation, the functional literacy program is deteriorating. For example, we were informed that of the 15 functional literacy centers established in the Bankass Sector, all but one have been closed down. The Sector Chief cited the lack of operating expense funds as the reason for the program coming to a halt.

Village Associations Not Formed

In conjunction with the pilot village approach, Phase II of the project provided for the forming of five to six village associations. The Operation was to advance credit, supplies and perhaps funds for marketing in accordance with aggregate needs. Credit for individual needs was to be distributed by the village association. Although 12 pilot villages were established, the village association concept was never initiated. The Operation consequently extends credit and other services to these pilot villages on an individual basis.

Short-term technical assistance was to be provided by the project to assist the Operation with the village organization activity. No assistance was provided, which probably accounts for this activity not getting off the ground. Another contributing factor was the lack of effective functional literacy programs. Only two of the twelve pilot villages had such programs. A Phase II Evaluation concluded that without a functional literacy program, no pilot village can create a real village association.

Grinding Mills Operation Discontinued

Phase II of the project provided for an activity whereby the Operation was to establish and operate grinding mills at various villages in the project area. The purpose of this activity was to relieve village women of the tedious task of pounding grain with a motar and pestle. This activity was also to provide the Operation with a profit to be applied towards its recurring operating costs. By the end of the project, it was planned that 100 grinding mills would be in operation.

The Operation experimented with the establishment and operation of one grinding mill. The results of this endeavor proved to be a failure. The grinding mill incurred numerous breakdowns requiring repairs which were difficult to obtain and expensive. The Operation also lacked the management capability to carry out this type of activity.

Twelve grinding mills were provided under the project for this activity. Based on a recommendation made by the Phase II Evaluation, these grinding mills were sold during 1982 to private entrepreneurs in the Mils-Mopti region.

Well Construction Was Discontinued

Phase I of the project provided for a well construction activity to improve water sources for a number of villages which were in serious need of water for domestic and livestock uses. This activity was continued under Phase II. The project anticipated the construction of 54 open wells in villages with serious water problems.

Efforts by the Operation to have the work performed under this activity were unsuccessful. The initial work was performed by Operation Puits, a GRM agency charged with developing and improving domestic water supplies at the villages. The approach used by Operation Puits did not work. The Operation then arranged to have the work performed by the Hydraulic Service of the GRM. The efforts of this organization also failed to yield any positive results. A private contractor was finally thought to be the solution to this activity. But the results of this approach were not much better. In total, only nine wells were constructed before the activity was discontinued.

THE PROJECT'S LOCAL CURRENCY EXPENSE RECORDS WERE NOT IN AUDITABLE CONDITION

The Operation's financial records for the $5.7 million funds received for local costs from project inception in June 1976 through June 1982, were not in auditable condition. Consequently, we were not able to verify that AID monies released for approved project activities were used for the purposes intended. According to USAID records, $5.7 million were released for local operating costs, credit fund activities, and expenses incurred under the construction program (see Exhibit B).

The requirement for the Operation to maintain suitable records is stipulated in Article B, Section B.5, of the Project Standard Provisions. This requirement, entitled "Reports, Records, Inspections, Audit", reads as follows:

> "The Grantee will:
>
> (a) furnish A.I.D. such information and reports relating to the Project and to the Agreement as A.I.D. may reasonably request;
>
> (b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion..."

The Operation submitted to the USAID periodic vouchers for expenses incurred under the project. The vouchers submitted only contained a summary schedule of expenses claimed by line item. No documentation in support of expenses claimed were submitted with the vouchers.

Prior to mid-1980, there is no evidence the USAID had reviewed any documentation in support of amounts claimed by the Operation. When the current USAID Project Officer was assigned to the project in mid-1980, he commenced to review supporting documentation for local currency project expenses claimed by the Operation. His reviews resulted in considerable disallowance of amounts claimed by the Operation. Early in 1981, the USAID's Controller's Office reviewed the Operation's financial records in support of expenses claimed and paid under the project. The results of this review, contained in a report dated April 3, 1981, disclosed numerous significant discrepancies concerning the financial affairs of the Operation. Because of these deficiencies, USAID suspended payments effective May 31, 1981.

The USAID Controller's Office reviewed the Operation's accounting procedures and internal controls in April/May 1982 to determine if required improvements had been made satisfying Section 121(d) Certification Requirements . The USAID Controller's Office recommended to the Mission that it "...not certify the Operation because of inadequate internal controls, staffing and supervision."

In order that the Operation could continue project operations, a conditional certification was approved by AID/W for limited financing. A part of the funds to be released by AID was to be used to engage financial technical assistance to try to put into acceptable order the existing bad state of affairs of the accounting records and to install accounting procedures that would address the accounting deficiencies.

Under the approved limited funding provisions, the USAID, in August 1982, engaged a team of local financial consultants to correct the Operation's books of account and to reconstruct accounting records through the current period. Because of the poor state of records, USAID officials estimated a complete reconstruction would take a minimum of six months. The USAID, in July 1982, also engaged a short-term American financial advisor to review the Operation's financial procedures and to make necessary improvements as a necessary step toward possible 121(d) certification. In addition, the financial advisor was to act as a control over all current project expenses, by approving project expenses for payment and as a required co-signer on checks issued by the Operation.

In September 1982 the short-term financial advisor notified the Mission that the Operation's management was not cooperating. He expressed the opinion "...that unless USAID completely cleans house at OMM, accounting certification is absolutely out of the question." Several days afterwards various financial and inventory records were discovered missing. At this point, the USAID instructed the team of local financial consultants and the financial advisor to return immediately to Bamako. In addition, the USAID put a hold on all project activities. Shortly thereafter the Assistant Administrator/Africa instructed the USAID to terminate the project. Termination details were still in the discussion stage during the course of our audit.

Verification Attempts

The Operation's inadequate accounting and deliberate intermingling of funds precluded a detailed review of the accounts.

USAID gave to the Operation MF 2,585,409,298 ($5,718,442) from June 1976 thru June 1982 (see Exhibit E). Included were MF 354,888,427 ($784,947) for a revolving agriculture credit program, MF 48,925,020 ($108,213) for a revolving fund to finance mobylettes for the Operation's employees. The balance of MF 2,181,595,851 ($4,825,282) were to be used for construction and local operating costs. Notwithstanding the overall accounting inadequacy and intermingling of accounts, we did attempt to review three payment vouchers covering the period February 1, 1978, thru September 30, 1978.

The total amount of project local currency costs claimed and paid for these vouchers were MF 279,226,450 ($620,503). We were informed by officials of the Operation that they did not have schedules or other records showing the details of expenses claimed on their vouchers. They explained that once a voucher was prepared, supporting invoices were filed by payment date. They stated that, by pulling from the files paid invoices during the period claimed on the reimbursement voucher, expenses claimed on the voucher could be reconciled and verified. Accounting staff of the Operation pulled paid invoices from the files for the test period, summarized them by line item and presented them to us for review.

We encountered numerous problems in attempting to carry out this audit verification procedure. Documentation presented to us in support of amounts claimed could not be reconciled to the reimbursement vouchers, with the differences being substantial (see Exhibit F). Without any available detail listings or schedules on what made up the total of each line item expense shown on the vouchers, there is no way to determine what supporting documentation supports the amounts claimed.

We had problems with much of the documentation presented to us. Most of the suppliers' invoices could not be supported by purchase orders or receiving reports. Invoices for expenses not allowable under the project were presented such as taxes on vehicles, entertainment, housing rents for Operation officials and expenses for the functional literacy program which was funded under another USAID project. Advances to construction contractors could not be supported with sufficient procurement documents, contracts and progress payment schedules. Advances to sectors could not be reconciled to supporting documentation. Payroll listings varied considerably with amounts claimed for salary costs. Another complicating factor involved in trying to verify costs is the practice used by the Operation to pay supplier invoices. The Operation, for many of its suppliers, makes partial payments on invoices thus making it difficult to match payment with invoices and to determine what amounts have been claimed on reimbursement vouchers.

Agriculture Credit Fund

Our review disclosed that the Operation has been using project credit fund collections to finance operating expenses and to pay the salaries of GRM employees. This practice not only is in violation of the project agreement, but has resulted in the circumvention of financial controls recently agreed upon by the GRM Minister of Agriculture and the Director of the Operation.

USAID financed MF 354,888,427 ($784,947) of agricultural material to be used in establishing and maintaining an agricultural credit fund. The major part of these materials were provided in the early years of the project. The purpose of the agriculture credit fund was to establish a revolving fund from which the Operation could provide small scale farmers with necessary agriculture materials and implements.

We visited three of the seven sectors under the project to determine if collections from agriculture credit fund sales were being remitted to the project's credit fund account. We tested the period January 1, 1982, thru October 15, 1982. The results of our review disclosed that very little of the collections were being remitted to the credit fund account and instead were being used to finance the sector's operations (see Exhibit G).

Sector Chiefs informed us that credit fund collections were used to finance sector operations upon the instructions of the Operation's management. They also told us the GRM government salaries were paid from collections because the GRM was slow in meeting the monthly payroll.

However, upon returning to the Operation's Headquarters in Mopti, we learned that the GRM salaries for the Operation had been paid currently thru the period ending September 30, 1982. We were told by the Operation's Director that he obtained the GRM payrolls in cash from the Mopti Bank and kept the funds in his office safe. The Director claimed that he used these funds to pay the Operation's suppliers. None of these transactions were listed in any of the Operation's financial records.

For the period January 1, 1982, thru September 30, 1982, we determined that the Director had received the following GRM funds for payment of salaries:

Total GRM salaries received	FM 61,935,750
GRM salaries paid	15,853,170
Retained by Operation Director	FM 46,082,580

The Operation's Director gave us a statement that MF 36 million of this amount was used to pay suppliers. He produced invoices totaling MF 20.5 million. These invoices, however, had no supporting documentation that they had in fact been paid. These practices of the Operation's Director not only violate the terms of the project agreement, but are contrary to GRM laws which provide that payments of GRM payroll for purposes other than the payment of GRM salaries is illegal. It should be noted that the investigative arm of the GRM Inspector General is reviewing other aspects of the Operation. One of their findings pertinent to the inadequate accounting records is that the Operation's Director's safe contained many IOUs, several of which were for more than a million MF, and applicable to various management officials of the Operation.

Another major problem that we have with these irregular financial practices is that they were used to deliberately circumvent the Operation's accounting system. A short-term financial advisor was engaged to review the Operation's accounting system, make necessary changes and to strengthen internal controls. In addition, and as agreed in writing by the Minister of Agriculture in Implementation Letters of June 24, 1982, and July 14, 1982, the consultant was to approve all project invoices for payment and co-sign all checks issued for payment. Since the GRM cash payrolls were never reflected in the Operation's books of account nor the alleged payments to suppliers, the efforts of the financial advisor were completely thwarted.

The Operation has been reimbursed MF 354,888,427 ($784,947) for the purchase of agricultural commodities for the credit fund program. We were unable to determine what the balance of the Credit Fund account should be because of the irregular accounting practices concerning the use of credit fund collections. The current cash balance as of November 12, 1982 was only MF 1,690,095 ($3.756).

We believe that because of the flagrant misuse of the Credit Fund collections, the USAID should issue a Bill for Collection to the GRM for the $784,947 spent for the Operation's Credit Fund program.

Mobylette Repayments

Installment payments made by the Operation's employees on mobylette credit sales have not been deposited to the Credit Fund account, but have been reportedly used to finance other costs of the Operation.

Project funds of MF 48,925,020 ($108,213) were made available to the Operation for the purchase of mobylettes. The mobylettes were sold to the Operation's employees on credit terms. Payments are made by the employees through withholdings from salary payments. The Project Agreement provided that a separate mobylette revolving fund account would be established. Mobylette installment payments would be deposited to this account and be used to purchase replacement mobylettes. The Operation did not establish a separate mobylette account, but instead used the Agricultural Credit Fund account for mobylette transactions.

As was the case with the Agriculture Credit Fund, most of the mobylettes were financed in the early years of the project.

Operation management stated that mobylette repayments were used to defray its operating costs. We were unable to determine what the balance of the mobylette account should be because of the poor condition of the records maintained for them. Neither were we able to determine if the full MF 48,925,020 had actually been spent by the Operation.

At the three sectors we visited, we noted that for the period January 1982 thru September 1982, MF 12 million ($26,667) had been collected on mobylette repayments. None of these funds had been remitted to the Credit Fund account, but were retained by the Sectors and used to finance operating costs. We believe that, because the Project Agreement terms were violated concerning the use of mobylette repayments, the USAID should issue a Bill of Collection to the Operation for the $108,213 paid for the mobylette program.

Conclusions and Recommendations

The financial practices used by the Operation have resulted in an accounting nightmare. The Operation is currently operating under three accounting systems:

a) The Operation's official accounting system;

b) The Operation's Director's system of handling transactions from his office safe, and

c) The Sector's system of operating with Credit Fund collections.

None of these systems are tied into each other, thus raising several questions about the use of AID-financed funds. This situation is further complicated because of the poor condition of the Operation's accounting records and lack of supporting documentation. This augments the task of making a final project accountability for the funds. Adding to the confusion is the fact that the Operation receives large sums of money from OPAM, a GRM parastatal enterprise, which uses the Operation as an agent to procure grains.

Based upon our observations during our on site examination, we believe the accounting shortcomings and inadequate procedures have existed since project inception. Because of the gross intermingling of funds and the number of questionable activities, we believe the only way to review utilization of operating funds is to have a complete reconstruction of accounting records from project inception. There should be separate accounting reconstructions for all sources of income and expenses attributable to Operating Expenses, Agriculture Credit Fund, Mobylette Fund, OPAM activity, and funds derived from sales of AID-financed equipment.

The accounting reconstruction exercise should include for each type of fund the following information:

-- A schedule of total monthly local currency expenditures and receipts segregated by budget cost category. These schedules should start with the inception of the project through current period.

-- Copies of related bank statements for each month beginning with inception of the project through current period.

-- Copies of the Operation's most current bank reconciliations.

-- A statement by the Operation that their segregated expenditure and receipt totals are substantiated by adequate supporting documentation (i.e. purchase orders, receiving reports, receipts, and that such files are readily accessible and maintained in a businesslike manner.

Upon satisfactory completion of the above reconstructions, the USAID should perform a follow-up review and examine the necessary substantiating documentation.

Should the GRM be unable to complete the required accounting reconstructions within nine months from publication date of this report, USAID should issue a Bill for Collection in the amount of MF 2,181,595,851 ($4,825,282), representing AID funds made available for construction and local operating costs.

Accordingly, we have recommended that:

<u>Recommendations No. 2:</u>
USAID/Mali should issue a Bill for Collection in the amount of MF 354,888,427 ($784,947) to the GRM for funds improperly managed by the Operation under the Agriculture Credit Fund.

<u>Recommendation No. 3:</u>
USAID/Mali should issue a Bill for Collection in the amount of MF 48,925,020 ($108,213) to the GRM for funds improperly managed by the Operation under the Mobylette program.

<u>Recommendation No. 4:</u>
Per authority provided in article B, Section B-5 of the Project Standard Provisions, USAID/Mali should request the GRM to prepare a complete and segregated set of reconstructured accounts from project inception through the current period. Should the GRM fail to satisfy the requirement within nine months from publication date of the report, USAID/Mali should issue a Bill for Collection for MF 2,181,595,851 ($4,825,282) to the GRM for funds improperly managed by the Operation for Operating Costs.

THE OPERATION HAS NOT EXERCISED PRUDENT PROCUREMENT PRACTICES

The failure of the Operation to exercise prudent procurement practices has resulted in procurement at unreasonable prices and inappropriate for project purposes. Many procurement transactions were of a questionable nature, involving mismanagement and possible fraud.

The Operation has expended substantial amounts of project funds for local procurement, including purchases for agricultural commodites, vehicles, spare parts, mobylettes, materials, supplies, and contracting for construction.

The Project Standard Agreement Provisions Annex Section C.4 provides that; "No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis." The Operation, since project inception, has been remiss in complying with this provision.

As described earlier in this report, there was a complete lack of prudent procurement practices under the Phase I building construction program. Problems with the Operation's procurement of agricultural commodities were pointed out in a March 1980 report by a short-term technical advisor stating "A system for selling farm equipment at competitive prices is needed." The USAID Controller's April 4, 1981 report, containing the results of a review conducted by that office of the Operation's financial matters stated "Financial management practices at OMM are fundamentally unsound. In addition to many instances of inefficient and/or nonexistent management, there were several examples of transactions which could be described, at the very least, as improper." During our attempts to audit the financial records of the Operation, we noted an almost complete lack of procurement documentation in support of project purchases.

Allegations were made that the Operation intentionally employed poor financial practices in order to carry out many improprieties. The GRM Inspector General's Office is currently investigating the Operation in connection with these allegtations. Preliminary findings have disclosed strong indications of mismanagement and malfeasance by the Operation.

Cited below are some examples of irregular or imprudent procurement practices by the Operation.

-- 1750 13-liter watering cans were purchased in March 1979 at MF 15,000 each. Four years later the same supplier was selling 10-liter watering cans at MF 7,500 each. Malian Inspectors found that 13-liter watering cans can be purchased from another supplier at MF 7,500 to FM 8,000 each. Most of these watering cans remain unsold as farmers are unwilling to purchase them at the high price charged by the Operation.

-- Operation Mils-Mopti in early 1981 purchased a relief mural titled "La Jardiniere" in order to promote the project at a fair held by the Ministry of Agricultural Development. The mural was made of millet and promoted the AID-financed project. The Operation paid MF 2,200,000, ($4,890) for the mural. We noticed that the gift shop at the largest hotel in Bamako was selling a relief mural of the same materials and approximately the same size for MF 250,000 at the time of our audit. The Operation could not provide us with any further support, i.e. purchase order or documentation relating to the choice of supplier. The mural was not being used to promote the project. When we visited the Operation's headquarters, we found the mural hanging on the wall in the lavatory.

There were also three other murals purchased, but the Operation was not able to provide us any documentation concerning their purchase.

-- 62 Oxen were purchased and sold to the farmers on credit at two pilot villages. Each animal was sold for MF 122,275 . The farmers felt their true worth was between MF 60,000 and MF 80,000.

-- Mobylettes were purchased at unusually high prices. An order of 100 mobylettes was delivered March 15, 1980, to the Operation at a unit cost of MF 271,150. The same supplier delivered another order of mobylettes on July 20, 1980, at a unit price of MF 334,085. The GRM official price authorized for these mobylettes was MF 225,725 each. Transportation costs from the supplier's place of business to the Operation for the first order of mobylettes was MF 380,000. Transportation costs for the second order was MF 608,500.

-- The Operation purchased 210 wooden panels at a cost of MF 5,719,430 ($12,710). The panels were to be used as signs to advertise the project. The Operation paid an additional MF 8,640,000 ($19,200) for painting the signs. The cost of $150 each for a simple sign would appear to be quite excessive.

There have been indications of procurement problems throughout the implementation of the project. The problems, however, were never addressed. The Phase II Project Paper provided for a long-term financial advisor to assist the Operation on financial management. This advisor could have been of assistance in the procurement area, but no long-term financial advisor was ever provided by the project. A short-term financial advisor was provided during the closing months of the project, but this was too little and too late to correct the Operation's procurement problems.

The Vehicle Fleet

Although a substantial number of vehicles were provided by the project, most are inoperable or have been sold. Project vehicles were also sold without AID authorization and several sales were of a questionable nature.

For the period January 1, 1976, through May 31, 1981, AID reimbursed the Operation MF 627 million ($1.4 million) for fuel and vehicle maintenance costs. In spite of these large expenditures, the operational status of the vehicle fleet was deplorable on November 30, 1982, (See Exhibit H).

Factors which impeded the Operation from maintaining an efficient motor pool operation include lack of vehicle standardization, poor procurement practices, unavailability of spare parts from local suppliers, long lead time required for U.S. procurement, shortage of adequate storage space for a large spare parts inventory and poor inventory practices.

The control and maintenance of the spare parts inventory was inadequate. A short-term financial advisor summarized the situation in an August 1982 report to the USAID:

> "The buildings and grounds were littered with trash and junk and the inventory was in total disarray with many products stored on the floor and buried under dirt and debris. This included items such as carburators, fuel pumps and bearings, which are sensitive to contamination from dust. In some cases, the inventory had to be literally dug out with a shovel. About one-third of the items in stock lacked perpetual inventory cards. The cards that did exist were not up to date and many were not legible...."

With the absence of basic controls over inventories, issuances could not be accounted for and data was not available for the Operation to prepare meaningful procurement plans. In one case the Operation ordered and received $113,092 of Land Rover spare parts, of which approximately $76,000 worth remained after 14 months to handle the needs of only four Land Rovers.

The Project was also plagued with frequent vehicle accidents and exorbitant insurance rates. In one year the Operation paid CNAR (a government insurance agency) MF 49 million for insurance on 42 vehicles and 10 mobylettes. This represented an average yearly cost of approximately $2,100 for each vehicle which appears to be excessive. In at least four cases, vehicles were wrecked and no insurance reimbursement was received from the insurance company.

During the course of our review, we found that the Operation had sold project vehicles without AID approval. Annex 2, Article B, Section B. 3(a) of the Grant Agreement states:

> "Any resources financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project."

On February 4, 1981, the following project vehicles were sold without USAID approval:

Type	Yr. Purchased	Purchase Price	Sale Price
Land Rover	1976	3,850,000 MF	250,000 MF
Land Rover	1976	3,850,000 MF	15,000 MF
Land Rover	1976	3,513,803 MF	120,000 MF
Land Rover	1976	3,507,725 MF	300,000 MF
Peugeot 304	1976	2,532,000 MF	275,000 MF
Peugeot 404	1976	2,674,000 MF	250,000 MF
Peugeot 404	1977	2,750,000 MF	75,000 MF
Peugeot 504 Berline	1977	3,885,000 MF	802,000 MF
Peugeot 504 Familiale	1977	3,626,000 MF	300,000 MF
Renault 4	1977	1,917,995 MF	120,000 MF
		32,106,523 MF	2,507,000 MF
		($71,348)	($5,571)

Two of the vehicles were repaired by the Operation just prior to sale. The Operation paid for additional repairs on one of these vehicles seven months after being sold. Some vehicles were sold to individuals who supposedly bought them for Operation officials.

The inability of the Operation to effectively manage its vehicle operation has resulted in a vehicle fleet that is nearly depleted.

PROJECT MANAGEMENT WAS POOR

USAID management of the project was nearly non-existent for the first four years of the project. Although subsequent improvements in project management were made, the project was in such a disastrous state of affairs that these efforts were not enough to correct the many deficiencies and to get the project back on its planned course.

Project management has been described as the process whereby AID overseas and monitors all aspects of an AID-financed activity from its conceptualization through its design, approval, funding, implementation and evaluation. Project management is a continuum encompassing the roles and interactions of AID assistance recipients and intermediaries such as contractors and grantees. Varying with the scope and complexity of a project, effective project management generally relies upon a number of managerially accepted oversight methods and mechanisms. These include approval of prescribed activities of the assistance recipient, liaison with the intermediaries, progress reporting, problem identification, site visits and approval of disbursements.

From project inception in 1976 until mid-1980, USAID/Mali was errant in fulfilling its project management responsibilities. Little direction or guidance was provided to the Operation in order for them to implement planned project activities. Project Implementation Letters are the officially prescribed means for confirming and recording mutual understandings on aspects of the implementation of the Project Agreement. Yet few Project Implentation Letters were issued. The Mission took little action to ensure that the Conditions Precedents and Covenants of the Grant Agreement were met. Administrative reviews and approvals of reimbursement requests were cursorily performed. With the lack of field trip reports, memorandums of conversations and periodic progress reports, an effective and needed information system was not created.

Poor USAID management contributed to disastrous results. The Operation's inadequate and improper financial practices were either ignored or allowed to continue undetected over a long period of time, resulting in the misuse of AID funds and the lack of sufficient funds to implement planned project activities. Procurement actions were at times untimely and inappropriate, resulting in implementation delays. The scarcity of mission documentation for project implemention led to a situation which made it increasingly difficult to effectively plan, monitor and evaluate the project.

When the current AID project officer took over in early 1981, he was faced with a project which was completely out of control. As with his predecessor, he could not devote full time to the project because of other mission/project responsbilities. For this reason some management deficiencies continued. Site visits, meetings, conversations, and implementation actions were not adequately documented to provide for an effective information system.

However, the new AID project officer did effect some important management improvements, particularly financial monitoring and compliance with Grant Agreement provisions. For example, the project officer immediately began to review and question the propriety of reimbursement vouchers, resulting in substantial disallowances. Due to the lack of financial technical assistance, he called upon and received support from the Controller's Office in a futile attempt to assess and correct the Operation's accounting practices. Unfortunately, the requirements placed on the project officer to monitor financial aspects of a project located over 600 kilometers from the mission also contributed to less than adequate attention to other project matters.

USAID/Mali management resources were also severly taxed by the failure of AID/Washington to provide adequate project support to the mission. The Phase II evaluation stated:. "AID/Washington support has been dismal. Technical assistance has not been forthcoming; there have been long gaps in filling positions; in one case, inappropriate procurement was forced upon the Mission..."

Inadequate staffing and poor project management have been consistently pointed out in past audits and evaluations in Mali as a problem leading to poor project results. Operation Mils-Mopti was no exception. As a result, the Project was terminated because of poor implementation and improper financial accounting practices.

Exhibit A

OPERATION MILS-MOPTI
PROJECT FINANCIAL STATUS
at June 30, 1982

(US$'000)

	Obligations	Expenditures	Balance
Technical Assistance	759	677	82
Training	127	77	50
Commodities	2,768	2,710	58
Operating Costs	6,407	5,718 (1)	689
Evaluation	119	39	80
Uncommitted	2,128		2,128
TOTAL:	12,308	9,221	3,087

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(1) Represents local currency reimbursements to the Operation and also includes expenditures for construction and the credit fund. See Exhibit E for a detailed breakdown.

OPERATION MILS MOPTI

THE MARKETING OF GRAIN HAS SHARPLY DECLINED

Phase I of the project provided for the Operation to perform the function of procuring surplus grain from farmers in the project area at the GRM official price for the account of the GRM Office of Agricultural Marketing Products (OPAM). This objective proved to be very unpopular with the farmers in the project area. GRM official prices have been traditionally lower than those of the parallel (open) market. In order to ensure a certain market for purchases at the official price, the Operation set quotas for farmers on the amounts they would be required to sell to the Operation. As a result, farmers were receiving less income for their crops. The Phase II project paper deleted the marketing activity from the project because it was not possible to justify an investment in a system which does not contribute to an improvement in farmer income.

The Operation has continued the marketing function under Phase II. A special project covenant provided, however, that the Operation would not allocate an annual quota to market more grain than the largest amount (9,150 tons) which it has marketed in any year since the project began.

During Phase II of the project, marketing of grain by the Operation has decreased substantially as shown in the following schedule:

Growing Season	Grain Purchases (tons)
1978/79	6,556
1979/80	3,958
1980/81	3,953
1981/82	2,101

At the time of the audit, the Operation had not marketed any grain for the 1982/83 growing season. Extension agents in the field informed us that the 1982/83 marketing year would be low because of a poor crop due to insufficient rainfall. The apparent reason for the substantial decrease in marketing has been the lessening of pressure by the Operation to enforce marketing quotas on farmers. For example, the grain market quota set for the 1981/82 growing season was 7,555 tons, but only 2,101 tons were actually procured by the Operation.

The operation receives a commission from OPAM for each ton of grain purchased and delivered to OPAM warehouses. The Phase II project agreement included a covenant that all commissions earned on the marketing activity would be deposited into a special account. These funds would be used to replace nine project provided 10-ton trucks used in the marketing operation. None of the commissions earned were ever used to purchase replacement vehicles. Six of the Operation's 10-ton trucks have been junked, leaving three 10-ton trucks for the marketing activity. The Director of the Operation informed us that, because of the high vehicle operating costs and the small amount of cereals being marketed, the Operation has actually incurred losses on this activity.

OPAM advances funds to the Operation for the marketing activity. At September 30, 1982, the Operation owed OPAM MF 77,291,000 ($171,758) in advances that were not used to purchase grain for the OPAM account. Of this amount, MF 18,246,000 had been advanced by the Operation to farmers for grain which they had never delivered. Agents informed us that advances are made to farmers for grain but that farmers also receive advances from private sector merchants for grain orders. The farmer will deliver grain first to the merchants because of the higher price. Some of these farmers would not have enough grain remaining to deliver on the Operation's order. As a result, the operation incurs an accounts recevable due from these farmers. The remaining MF 59,045,000 has been used by the Operation to finance its regular operating costs.

The Operation has an additional liability with OPAM. OPAM, in addition to advancing funds to the Operation, makes available sacks in which grain is to be bagged. At September 30, 1982, sacks valued at MF 42,127,000 ($94,000), and advanced by OPAM, had not been utilized by the Operation for grain delivered to OPAM. The Director of the Operation stated that these sacks are not on hand but, represent sacks that were either advanced to farmers and not returned, were eaten by rodents or were in poor condition when received. The Operation is trying to get an agreement with OPAM that five percent of the sacks received each year should be considered a loss.

The marketing function rather than generating revenues for the Operation has become a financial burden on its resources. The marketing of grain has decreased to the point where little if any profit is being earned. The marketing vehicle fleet has been severely depleted. The Operation has incurred a substantial liability with OPAM. Although the marketing activity was dropped from the project, revenues to be generated by the continuance of this function was to play a vital role in the financial viability of the project.

Exhibit C
(Page 1)

OPERATION MILS-MOPTI

ROAD EQUIPMENT STATUS AT NOVEMBER 15, 1982

Vehicle	Location	Observations
Dump Trucks		
Hino KB 212	Sevare	Inoperable, Wrecked July 1979
Hino KB 212	Sevare	Heavy Oil Consumption - Needs Engine Overhaul and 3 tires
Hino KB 212	Sevare	Heavy Oil Consumption - Needs Overhaul and new brakes
Hino KB 212	Sevare	Heavy Oil Consumption - Needs Engine Overhaul, battery and tires
Berliet L 648R	Sevare	Operable with installation of battery
Berliet L 648R	Sevare	Inoperable, broken rod - needs engine overhaul
Berliet GBH 260	Sevare	Works well. Has been used for non-AID projects, tires worn
Berliet GBH 260	Sevare	Inoperable. Engine case broken, lift pump inoperable
IH F 1954	Sevare	Inoperable. Broken universal joint, broken pipe, clutch needs replacing
IH F 1954	Sevare	Works well.
Tanker Trucks		
Hino KB 212 Water	Sevare	No starter, alternator, or battery - needs new tires
Hino KB 212 Fuel	Sevare	Needs battery
IH F 1954	Sevare	Inoperable. Broken tank needs welding
IH F 1954	Sevare	Works well
IH F 1954	Sevare	Electrical system problem

Bulldozers		
Caterpillar D 6	Garou	Works well. Used for non-AID projects
Caterpillar D 6	Sevare	Works well. Was being used in Kona for non-AID projects
Motor Graders		
Caterpillar 120G	Bankass	Broken Hydraulic Pump - needs 2 tires
Caterpillar 120G	Garou	Works well. Was being used for non-Aid projects
Wheel Loaders		
Fiat-Allis 545 B	Bankass	Hydraulic jack needs repair
Fiat-Allis 545 B	Sevare	Hydraulic pump needs repair, needs 1 tire
Service Vehicles		
Saviem S 64 MBZ60 Lube Unit	Sevare	Compressor inoperable, no front windshield
Land Rover 109PU Welding Unit	Sevare	Recently overhauled - not yet tested
IH Low Boy	Sevare	Inoperable, needs tires
Roller Compactors		
Gallion P 3500 A	Unknown	Status unknown. The stripped compactor inspected in Bamako was purchased for another project. Travaux Neufs claims the project compactor is in Kolokani.
Passenger Vehicles		
Peugeot 404 Bachee	Sold	Wrecked and later sold
Land Rover Car	Sevare	Recently overhauled - not yet tested
IH Scout	Sevare	Inoperable, stripped of parts
AMC J 20 Jeep	Sevare	Inoperable, needs clutch work
Service Equipment		
Richier B 942-C Concrete Mixer	Goundaka	Condition unknown, being used for non-AID projects
Ingersol-Rand DRP 175 Compressor	Sevare	Needs battery
Onan Generator	Sevare	Inoperable. No repair manual, needs assistance to isolate problem.

Exhibit D

OPERATION MILS-MOPTI
BUILDING CONSTRUCTION STATUS AT NOVEMBER 30, 1982

Location	Type of Building	Contract Date	Contract Amount (MF)	STATUS
Madougou	Warehouse	2/26/74		Not built
Toroli	Warehouse	2/26/74		Collapsed
Dinangourou	Warehouse	2/26/74		Not built - Cleared land, purchased iron
Koro	Warehouse	2/26/74		In use-Walls cracking
Koro	House	2/26/74	17,901,200	In use - Generally good condition
Bankass	Office	3/5/74		In use-Walls cracking, roof leaks
Bankass	Warehouse	3/5/74		In use-Walls & Floor cracking, roof leaks
Sokoura	Warehouse	3/5/74	8,750,000	In use
Sevare	Office	8/7/74		In use-Walls cracking, roof leaks
Sevare	Garage	8/7/74	11,065,000	In use-Fair condition
Segue	Warehouse	3/5/74		Not completed
Diallassagou	Warehouse	3/5/74		Collapsed
Korporon-Pen	Warehouse	3/5/74		Not built
Douentza	Warehouse	3/5/74		Not built
Bore	Warehouse	3/5/74		Not built
Kani-Bonzon	Warehouse	3/5/74		Not completed
Koporo-Na	Warehouse	3/5/74		In use-Walls cracking
Diounganі	Warehouse	3/5/74		In use
Koulongon	Warehouse	3/5/74		Collapsed
Baye	Warehouse	3/5/74		Roof blew off
Ouankoro	Warehouse	3/5/74		Roof blew off
Diankabou	Warehouse	3/5/74	47,500,000	Not completed
Sevare	Boundary Wall	3/31/76	7,275,510	In use-Generally good condition
Sevare	House	8/9/76		In use-Generally good condition
Sevare	House	8/9/76		In use-Generally good condition
Sevare	House	8/9/76	25,032,000	In use-Generally good condition
Sevare	House	8/9/76	8,344,000	In use-Generally good condition
			125,867,710(1)	

(1) Contract amounts are used for indicative purposes since the Operation was unable to provide an accountability for construction costs claimed under the project. The Operation was reimbursed MF 232,716,955 for building construction but, according to Operation officials, the amounts claimed also included costs incurred for renovations and remodeling.

Exhibit E

OPERATION MILS-MOPTI

PROJECT LOCAL CURRENCY REIMBURSEMENTS
June 29, 1976 thru June 30, 1982

	Malian Francs	U.S. Dollar Equivalent
Building Construction	232,716,955	$ 514,726
Office & Housing Equip.	91,745,097	202,923
Mobylettes & Bicycles	48,925,020	108,213
Agricultural Material	354,888,427	784,947
Vehicle Maintenance & Fuel	627,481,327	1,387,871
Salaries & Bonuses	454,888,647	1,006,129
Research - IRAT	3,643,355	8,059
Other Operating Expense	460,897,231	1,019,419
Wells	38,416,485	84,970
Functional Literacy	195,000	431
Road Work	271,611,754	600,754
TOTAL	MF 2,585,409,298	$ 5,718,442

OPERATION MILS-MOPTI
Audit Verification Test Period
2/1/78 - 9/30/78

(In Malian Francs)

	Claimed and Reimbursed	Supporting Documentation Presented	Difference	Documentation Presented, Costs Questioned	
Bldg. Const.	13,333,375	20,983,038	(7,649,663)	13,394,385	1/
Off. & Res. Equip.	11,559,430	4,559,550	6,999,880	2,719,430	2/
Mobylettes	30,840,570	30,840,595	(25)	20,560,380	3/
Agric. Material	20,427,650	20,240,000	187,650	240,000	4/
Veh. Fuel & Main.	61,748,313	61,708,215	40,098	36,561,727	5/
Sal. & Bonuses	68,790,472	28,992,815	39,797,657		
Roadwork Costs	15,152.126	35,487,641	(20,335,515)	35,487,641	6/
Misc. Expenses	57,374,514	51,752,908	5,621,606	39,154,190	7/
TOTAL	279,226,450	254,564,762	24,661,688	148,117,753	

NOTES TO EXHIBIT F

1/ The Operation submitted receipts for MF 13,394,385 ($29,765) representing advances to contractors. Supporting documentation for procurement, contracts and progress payments was unavailable.

2/ The Operation claimed MF 2,719,430 ($6,043) for the final payment on 210 wooden panels. Supporting documentation for the procurement, arrival, and end use of the panels was unavailable. Project officials informed us that these panels were used as signs for the project area. We were able to observe some of these signs in the course of our field work. An average cost of MF 27,235 ($60) would appear to be excessive for small wooden planks. We question the entire amount of the invoice of MF 5,719,430 ($12,710).

3/ The Operation could only furnish supporting documentation for the receipt of 48 of 144 mobylettes purchased. We question MF 20,560,380 ($45,690) claimed for the remaining 96 mobylettes.

4/ Supporting documentation for the procurement, arrival and end use of MF 240,000 ($533) worth of seed plate discs could not be furnished.

5/ The Operation was unable to furnish supporting documentation for the procurement, arrival, and end use of the following:

- Thirty-two tires at MF 4,130,090 ($9,178)
- Eight tarpaulin truck tops at MF 5,200,000 ($11,556)
- Four bulk purchases of fuel at MF 8,665,880 ($19,258)
- Unspecified inscriptions on seventeen vehicles at MF 1,360,000 ($3,022)
- Repair of an auto at MF 998,795 ($2,220)

We were presented with receipts for a trip to Togo for MF 1,137,072 ($2.527). No authorization or other justification was provided.

The Operation claimed MF 14,464,220 ($32,143) for installments on a MF 49,374,377 ($109,720) insurance bill. The propriety of this bill is dealt with in a separate section of this report.

6/ Insufficient documentation was furnished to provide a proper accounting for MF 35,487,641 ($78,861) turned over to Travaux Publics (a governmental ministry) for salaries and operating costs of road construction.

7/ We question the propriety of claiming expenses for the following:

Taxes on vehicles at MF 1,700,000 ($3,778)
Various entertainment and lodging expenses at MF 2,353,245 ($5,229)
Housing rent for Project officials at MF 900,000 ($2,000)
Expenses for the Functional Literacy Program (funded under a separate AID project) at MF 10,646,000 ($23,658).

Advances of MF 8,686,450 ($19,303) to sector chiefs were claimed as an expense. The Operation was unable to supply us with schedules or control cards for reconciling the advances. The advances also could not be tied into the invoices furnished as support.

The Operation claimed MF 8,640,000 ($19,200) for painting the simple wooden signs described in note No. 2. Again supporting documentation was unavailable. An average cost of MF 44,307 ($98) would appear to be excessive for a simple painting job on small wooden planks.

The Operation also could not furnish supporting documentation for the procurement, arrival and end use of MF 6,228,495 ($13,841) of stationery supplies.

Exhibit G

OPERATION MILS MOPTI

Sectors Visited to Verify Credit Fund Collections
January 1, 1982, thru October 15, 1982
(In Malian Francs)

	Sectors			
	Bankass	Koro	Bandiagara	Total
Collections				
Total	26,376,600	37,803,815	12,154,475	76,334,890
Deposits to Hdqtrs.	10,140,220	8,977,460	-	19,117,680
Collections Retained	16,236,380	28,826,355	12,154,475	57,217,210
Expenses Paid				
Contract Salaries	2,579,240	3,088,940	3,224,245	8,892,425
Bonuses	4,372,250	6,835,500	-	11,207,750
Government Salaries	4,998,665	15,095,710	7,072,490	27,166,865
Operating Expenses	3,105,795	3,448,260	180,140	6,734,195
Total Expenses	15,055,950	28,468,410	10,476,875	54,001,235
Cash on Hand 10/15/82	1,180,430	357,945	1,677,600	3,215,975

OPERATION MILS-MOPTI
Vehicle Status at November 30, 1982

VEHICLE	LICENSE NUMBER	YEAR PURCHASED	CONDITION
Land Rover	5RMD 0469	1976	Sold
Land Rover	5RMD 0471	1976	Sold
Land Rover	5RMD 0479	1976	Sold
Land Rover	5RMD 0481	1976	Wrecked-later sold
Land Rover	5RMD 0660	1978	Fair
Land Rover	5RMD 0661	1978	Poor-Engine
Land Rover	5RMD 0768	1979	Fair
Land Rover	5RMD 0769	1979	Poor
Scout - Int'l. Harvester	5RMD 0605	1978	Fair-needs repair
Scout - Int'l. Harvester	5RMD 0606	1978	Completely down
Scout - Int'l. Harvester	5RMD 0607	1978	Completely down
Scout - Int'l. Harvester	5RMD 0981	1980	Down-Gas Pump
Scout - Int'l. Harvester	5RMD 0982	1980	Wrecked
Scout - Int'l. Harvester	5RMD 0983	1980	Wrecked
Scout - Int'l. Harvester	5RMD 0984	1980	Wrecked
Scout - Int'l. Harvester	5RMD 1081	1981	Wrecked
Scout - Int'l. Harvester	5RMD 1082	1981	Fair
Scout - Int'l. Harvester	5RMD 1084	1981	Down
Scout - Int'l. Harvester	5RMD 1085	1981	Wrecked
10 ton Truck - Int'l. Harvester	5RMD 0651	1978	Junked
10 ton Truck - Int'l. Harvester	5RMD 0652	1978	Junked
10 ton Truck - Int'l. Harvester	5RMD 0653	1978	Good
10 ton Truck - Int'l. Harvester	5RMD 0654	1978	Junked
10 ton Truck - Int'l. Harvester	5RMD 0655	1978	Junked
10 ton Truck - Int'l. Harvester	5RMD 0656	1978	Junked
10 ton Truck - Int'l. Harvester	5RMD 0657	1978	Junked
Truck - Hino KB212	5RMD 0573	1978	Good
Truck - Hino KB212	5RMD 0574	1978	Good
Peugeot 304	5RMD 0476	1976	Sold
Peugeot 404	5RMD 0464	1976	Sold
Peugeot 504 Familiale	2RMD 7630	1977	Sold
Peugeot 504 Berline	5RMD 0350	1977	Sold
Peugeot 504 Berline	5RMD 1020	1980	Wrecked
Peugeot 504 Break	5RMD 0726	1979	Good
Peugeot 504 Break	5RMD 0727	1979	Wrecked - disposed of
Peugeot 504 Familiale	5RMD 0728	1979	Good
Toyota Land Cruiser	5RMD 0745	1979	Down - Water Pump
Toyota Land Cruiser	5RMD 0746	1979	Poor
Toyota Corona	2RME 8561	1979	Good
Toyota Pick-up	2RME 1518	1980	Good
Renault 4	5RMD 0472	1977	Sold
Renault 12	5RMD 0750	1979	Down - In for repairs
Renault 12	5RMD 0751	1979	Good

LIST OF REPORT RECOMMENDATIONS

LIST OF RECIPIENTS

	No. of Copies
ASSISTANT TO THE ADMINISTRATOR FOR MANAGEMENT	1
ASSISTANT ADMINISTRATOR/AFR	5
USAID/MALI	5
REDSO/WCA	1
MALI DESK	1
AFR/EMS	1
AFR/SWA	1
DIRECTOR/LEG	1
M/FM	2
GC	1
OFFICE OF PUBLIC AFFAIRS (OPA)	1
S&T/DIU	4
PPC	4
IG	1
IG/PPP	1
IG/EMS	12
IG/II	1
RIG/II/ABIDJAN	1
RIG/A/W	1
RIG/A/CAIRO	1
RIG/A/MANILA	1
RIG/A/KARACHI	1
AAP/NEW DELHI	1
RIG/A/NAIROBI	1
OECD - CLUB DU SAHEL	1