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AUDIT OF
SUDAN AGRICULTURAL PLANNING AND
STATISTICS PROJECT
PROJECT NO. 650-0047

AUDIT REPORT NO. 3-650-88-20
July 29, 1988

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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July 29, 1988

MEMORANDUM FOR DIRECTOR, USAID/Sudan, John W. Koebring

FROM: Richard C. Thabet, RIG/A/N

SUBJECT: Audit of Sudan Agricultural Planning and
Statistics Project No. 650-0047
Audit Report No. 3-650-88-20

The Office of the Regional Inspector General for Audit, Nairobi has completed its audit of the Sudan Agricultural Planning and Statistics Project No. 650-0047. Enclosed are five copies of the audit report.

A draft audit report was submitted to you for comment, and your comments are attached to the report. The report contains four recommendations. Recommendation No. 2 is considered closed and requires no further action. Recommendations Nos. 1, 3 and 4 are resolved and will be closed upon receipt by this office of evidence that shows that the cited actions are complete. Please provide me these additional materials within 30 days.

I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

The primary purpose of the Sudan Agricultural Planning and Statistics Project was to improve policy definition and planning for agricultural development in Sudan. The objectives were to strengthen the capability of the Ministry of Agriculture and Natural Resources to (1) prioritize and analyze critical macro-economic, marketing and trade issues; (2) develop a reliable agricultural data base and reporting system; and (3) plan agricultural projects and programs designed to overcome future and current constraints to agricultural progress in Sudan. The project was initiated on June 5, 1981 and was originally to be completed by December 31, 1985. The project was amended three times. Amendment No. 3 to the Grant Agreement, May 2, 1987, extended the completion date to April 30, 1991, increased A.I.D. funding by \$7.2 million to \$14.5 million, and attempted to more clearly link the project to the policy-making process. As of February 16, 1988, A.I.D. had expended about \$5.2 million of the \$14.5 million.

The Office of the Regional Inspector General for Audit/Nairobi made a program results and economic and efficiency audit of the project. Audit objectives were to determine whether (1) changes made to tighten the project's focus toward agricultural policy making improved its progress toward achieving project objectives, (2) USAID/Sudan ensured that procured items were properly controlled, and (3) the project's level of funding was commensurate with its needs.

Project objectives may not be fully achieved because (1) changes made when amending the project to more clearly link the project to the policy-making process did not effectively address known problems or were not fully implemented, and (2) USAID/Sudan did not have a firm agreement with the Government of Sudan concerning its financial contribution to the project. In addition, USAID/Sudan did not properly control about \$628,000 million of commodities purchased using project funds and subobligations of \$260,000 were no longer needed for the purposes intended.

Despite these shortcomings, the project appeared to be contributing toward improving the capability of the Ministry of Agriculture and Natural Resources to operate, maintain

and expand a system to collect and report agricultural statistics on a regular basis. The project had contributed toward the introduction of an improved method to statistically sample agricultural production and had gathered and published statistical information for several years. The project had also published studies and analyses on agricultural subjects in Sudan.

The audit disclosed four areas requiring improvement. First, USAID/Sudan needed to ensure that project outputs were fully oriented to project objectives and provided a basis for monitoring performance. Second, USAID/Sudan and the Government of Sudan needed to reach a firm agreement concerning the government's financial commitment to the project. Third, USAID/Sudan needed to institute improved controls over commodities. Fourth, USAID/Sudan needed to deobligate about \$260,000 of unliquidated project funds.

The Project Paper Amendment stated that the project amendment would better target project resources on agricultural policy formulation, and the amendment to the grant agreement specified several ways that the projects linkage to the policy would be strengthened. However, USAID/Sudan did not ensure that changes needed to more clearly link the project to the policy-making process or to monitor project progress were adequately addressed by conditions precedent, or were adequately implemented. This occurred because USAID/Sudan did not institute procedures to require effective leadership over the way projects were selected for analysis, research was conducted or the project was monitored. As a result, project implementation may continue without satisfactory progress toward significant project objectives, and without USAID/Sudan or the host government having the means to identify shortcomings and take corrective action. This report recommends implementing a system to identify and coordinate policy issues and problems toward which the project can effectively contribute, and instituting a management system to make sure work progress is directed toward approved policy issues and problems. USAID/Sudan agreed with the recommendation and outlined actions to implement it.

A.I.D. Handbook 3 stated that the Project Agreement reflects the two parties' commitment to satisfy project goals and that significant issues should not be left for resolution during implementation. However, USAID/Sudan finalized Amendment 3 to the Grant Agreement for the Agricultural Planning and Statistics Project without specifying the host government's financial commitment to the project, and has not subsequently resolved this issue. This occurred because the host government believed its contribution was too large, and because USAID/Sudan wanted to obligate funds quickly. As a result,

potential future shortages of local currency threatened satisfactory accomplishment of project goals, as has occurred in the past when some project activities were stopped or postponed. This report recommends that USAID/Sudan obtain a written statement from the Government of Sudan that clearly specifies the amount and conditions of the Government's financial contribution to the project. USAID/Sudan agreed with the recommendation and stated it has taken corrective action.

Contractors were required to control A.I.D.-financed property and submit an annual inventory report to the Mission. However, A.I.D.-financed commodities totalling about \$622,000 were not adequately controlled. This situation occurred because the mission did not enforce the relevant provisions of its contract with the technical analysis contractor and the contractor did not take measures to ensure its staff in the Sudan performed in accordance with the contract. As a result, A.I.D.-financed commodities valued at about \$628,000 were not accounted or cared for properly, creating an increased risk of fraud or abuse. This report recommends instituting improved procedures to control A.I.D. financial procedures. USAID/Sudan agreed with the recommendation and stated it has taken corrective action.

A.I.D. Handbook 3 stated that excess funds should be deobligated whenever it was certain that obligations exceeded the amount required. Sub-obligations for the project exceeded requirements by about \$260,000. This occurred because USAID/Sudan had not periodically reviewed its need for the funds. As a result, about \$260,000 was not available for other requirements. This report recommends that USAID/Sudan deobligate \$260,000 of project subobligations. USAID/Sudan agreed with the recommendation and stated it has taken corrective action.

Office of the Inspector General

AUDIT OF
SUDAN AGRICULTURAL PLANNING AND STATISTICS PROJECT

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AUDIT OF
SUDAN AGRICULTURAL PLANNING AND STATISTICS PROJECT

PART I - INTRODUCTION

A. Background

The primary purpose of the Sudan Agricultural Planning and Statistics (APS) Project was to improve policy definition and planning for agricultural development in Sudan. The objectives were to strengthen the capability of the Ministry of Agriculture and Natural Resources to (1) prioritize and analyze critical macro-economic, marketing and trade issues; (2) develop a reliable agricultural data base and reporting system; and (3) plan agricultural projects and programs designed to overcome future and current constraints to agricultural progress in Sudan.

The Government of Sudan (GOS) was responsible for providing institutions and processes that would provide timely analysis and statistics useful to agricultural policy-makers. A policy analysis group was to be established that would provide timely analysis to decision-makers and provide guidance to focus data collection and analytical work on key policy issues. A technical assistance contractor was to assist the GOS achieve the project objectives. USAID/Sudan's contribution to the project was to pay the cost of the contractor, participant and other training, commodities, remote sensing services and other costs. USAID/Sudan also was to monitor project implementation to ensure compliance with the project agreement and to ensure effective and efficient use of A.I.D. funds.

The project was initiated on June 5, 1981 and was originally to be completed by December 31, 1985. The project was amended three times. Amendment No. 3 to the Grant Agreement, May 2, 1987, extended the completion date to April 30, 1991, increased A.I.D. funding by \$7.2 million to \$14.5 million, and attempted to more clearly link the project to the policy-making process by focussing data collection and analysis activities on critical policy issues of immediate relevance, and by providing the results of these analyses to policy-makers in a timely manner. As of February 16, 1988, A.I.D. had expended about \$5.2 million of the \$14.5 million. See Exhibit 1 for an analysis of expenditure by budget category.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Nairobi made a program results and economy and efficiency audit of the project. Audit objectives were to determine whether (1) changes made to tighten the project's focus toward agricultural policy making improved its progress toward achieving project objectives, (2) USAID/Sudan ensured that procured items were properly controlled, and (3) the project's level of funding was commensurate with its needs.

The audit included a review of project and financial files and included interviews with USAID/Sudan officials, Sudanese officials within the Ministries of Agriculture and Natural Resources and Finance and Economic Planning, and technical assistance contractor officials. The audit also considered the results of a mid-term evaluation of the project made in July 1985.

We examined internal administrative controls used by USAID/Sudan to ensure project goals were achieved, property purchased using project funds was properly controlled, and local currency trust funds used by the technical assistance contractor were properly accounted for.

The audit was made in January and February 1988 and the Report of Audit Findings discussed with management officials in February 1988. The audit primarily covered the period from mid-1985, when the project was evaluated, until late February 1988, and covered obligations of \$14.5 million, commitments of \$6.7 million and expenditures of \$5.2 million.

The audit included a review of the Government of Sudan's local currency contributions to the project. However, neither the Government of Sudan's local currency expenditures nor its reports on contributions was audited.

The audit was made in accordance with generally accepted government auditing standards.

AUDIT OF
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PART II - RESULTS OF AUDIT

Project objectives may not be fully achieved because (1) changes made when amending the project to more clearly link the project to the policy-making process did not effectively address known problems or were not fully implemented, and (2) USAID/Sudan did not have a firm agreement with the Government of Sudan (GOS) concerning its financial contribution to the project. In addition, USAID/Sudan did not properly control about \$628,000 million of commodities purchased using project funds and subobligations of \$260,000 were no longer needed for the purposes intended.

Despite these shortcomings, the project appeared to be contributing toward improving the capability of the Ministry of Agriculture and Natural Resources (MANR) to operate, maintain and expand a system to collect and report agricultural statistics on a regular basis. The project had contributed toward the introduction of an improved method to statistically sample agricultural production and had gathered and published statistical information for several years. The project had also published studies and analyses on agricultural subjects in Sudan.

The audit disclosed four areas requiring improvement. First, USAID/Sudan needed to ensure that project outputs were fully oriented to project objectives and provided a basis for monitoring performance. Second, USAID/Sudan and the Government of Sudan (GOS) needed to reach a firm agreement concerning the government's financial commitment to the project. Third, USAID/Sudan needed to institute improved controls over commodities. Fourth, USAID/Sudan needed to deobligate and about \$260,000 of project funds.

The report contains four recommendations directed toward (1) identifying priority areas for analysis and implementing a management system to structure work; (2) amending the grant agreement to specify GOS' contribution to the project; (3) instituting improved procedures to control A.I.D. - financed property, and (4) deobligating about \$260,000 of unneeded subobligations.

Audit field work in Sudan was completed in February 1988, and Records of Audit Findings (RAFTs) were issued at that time. USAID/Sudan comments to the draft report were received in mid-June 1988, and have been considered in preparing this report. The full text of Mission Comments is at Appendix 2.

A. Findings and Recommendations

1. USAID/Sudan Needed to Institute Procedures to Ensure that Project Goals Were Achieved.

The Project Paper Amendment stated that the project amendment would better target project resources on agricultural policy formulation, and the amendment to the Grant Agreement specified several ways that the project's linkage to the policy-making process would be strengthened. However, changes needed to more clearly link the project to the policy-making process or to monitor project progress were not effectively implemented. This occurred because USAID/Sudan did not institute procedures to require effective leadership over the way projects were selected for analysis, research was conducted or the project was monitored. As a result, project implementation may continue without satisfactory progress toward significant project objectives, and without USAID/Sudan or the GOS having the means to identify shortcomings and take corrective action.

Recommendation No. 1

We recommend that USAID/Sudan in coordination with the Government of Sudan:

- a. Develop and implement a system to identify those policy issues and problems toward which the project can effectively contribute. The system must show evidence of analysis as to which studies are important to Sudan and evidence of coordination among the Government of Sudan ministries that use the data and make agricultural policy decisions.
- b. Institute a management system to relate work plans to those work requirement issues identified in recommendation 1 (a) above, and thereby establish a basis for making sure work progress is directed toward those efforts. The management system must include provisions to show how work is coordinated among contributing analysts, and to report on specific progress toward the requirements.

Discussion

Based upon a 1985 evaluation and a joint USAID/Sudan and GOS assessment, changes and additional time were needed for the project to achieve its objectives. The Project Paper Amendment, February 1987, stated the project would be amended to better target project resources on agricultural strategy and policy formulation. Amendment No. 3 to the Grant Agreement, May 2, 1988, stated that the project's linkage to the policy-making process would be strengthened in several ways.

Specifically, changes were needed to more tightly focus the project to strengthen the linkage between project outputs and its goals of improving the agricultural decision-making process. Project redesign starting in late 1985 was oriented to changes that would improve this linkage. Specific changes needed as identified by USAID/Sudan were to: (1) develop a management system to focus each technical assistant's tasks and create a more cohesive working atmosphere among the technical assistants, (2) create a link between policy analysis and GOS decision making, (3) develop a system to decide on policy issues to support the agricultural development strategy, (4) establish benchmarks to enable project managers to more closely monitor project progress and to insure the project was achieving its desired objectives.

Having identified specific needed changes, however, USAID/Sudan did not ensure they were included in project redesign or were effectively implemented. Conditions precedent were established for the second and third of the desired changes (a policy analysis link and a system to decide on policy issues) but there was nothing done to install a management system to focus work and benchmarks to monitor progress. Therefore, the project still lacked these features.

Further, the conditions precedent for the policy analysis link and the system to decide on policy issues were not satisfactorily implemented. Concerning the policy analysis link, a condition was made that the GOS establish a policy analysis unit to provide relevant, timely and reliable analysis to decision makers. All that was done, however, was to change the title of a GOS office from "Policy Formulation Administration Department" to "Policy Analysis and Planning Department". This change was ineffective, as there was no relationship, per se, in changing the name and linking policy analysis to decision making, and the official duties, personnel and procedures of the old office had not changed. In conclusion, nothing had been done to improve the link between project outputs and GOS decision making.

Concerning the system to decide on policy issues, a condition precedent was added that the GOS was required to select policy issues to be studied and analyzed in advance. This condition precedent was also not adequately satisfied. Studies selected for recurrent study were actually those studies already underway in 1987 that could readily be accomplished. While the three studies may be important to agricultural policy decision making in Sudan, they had not been coordinated among other GOS Ministries.

Therefore, the project was amended and funding of \$7.2 million added without incorporating changes needed to accomplish significant project objectives related to improving the capability of Sudan's Ministry of Agriculture and Natural Resources (the Ministry), for policy analysis.

The underlying problem was that USAID/Sudan did not institute procedures to require effective leadership of the project. The Ministry did not have effective leadership over its policy analysis function and USAID/Sudan had been unable to change that fact. Specifically:

- There has been insufficient demand for policy analysis internal or external to the Ministry. The project has attempted to anticipate need for statistical data and analysis rather than responding to requirements articulated from within the GOS.
- Activities of the the Ministry's unit responsible for policy and economy analysis have been poorly managed and coordinated. Production and marketing functions were located in a department separate from the policy analysis, and personnel from production and marketing had not cooperated with individuals working with policy analysis. Personnel from the technical assistance contractor have often openly feuded among themselves rather than working with the GOS to improve its ability to anticipate needs for policy analysis and act in a coordinated fashion to provide and communicate analytical products. A clear analytical framework was needed to orient project outputs to the policy analysis and decision-making process.
- Monitoring of progress toward improving the Ministry's capability for policy analysis has not been effective.

The result was that the project through its first seven years has been largely ineffective in satisfying its objectives of improving the capability of the Ministry to manage and sustain a sound policy analysis process, conduct effective policy analysis, or provide information to decision makers in a timely manner.

The project was at a critical crossroads as of February 29, 1988. USAID/Sudan has long been aware of problems relating to improving the capability of the Ministry for policy analysis and for linking the results of that analysis to decision-making. It identified potential solutions attempted to confront some of these problems through the use of conditions precedent when amending the project's grant agreement. However, it has yet to actually required the needed

improvements. The technical assistance contract for the remaining three years of the project, in the process of being awarded, did not sufficiently address the project's underlying problems. Changes were still needed to better orient the project to its underlying objectives, and to make sure that work contributed towards those objectives.

Management Comments

USAID/Sudan stated that the new technical assistance contract team will develop a matrix which will list analytical needs, rate them as to importance to Sudan and indicate what data gaps need to be filled before analysis can be done. This matrix will be discussed and approved by appropriate GOS ministries.

Workplans will then be developed based upon the above-cited matrix. The new contract team leader is being charged with the responsibility of coordinating the workplans. Workplans and local currency budgets will clearly indicate how work is to be coordinated and which production reports are the established benchmarks of the project. Quarterly implementation reports required of each contract staff will indicate progress toward achieving work objectives.

Office of Inspector General Comments

The cited actions are responsive to the recommendations, which are considered resolved. The recommendation may be closed upon completion of the cited actions and receipt by this office of information that shows that the actions have been satisfactorily completed.

2. The Grant Agreement Provision Concerning Local Currency Required Definitization

A.I.D. Handbook 3 stated that the Project Agreement reflects the two parties' commitment to satisfy project goals and that significant issues should not be left for resolution during implementation. However, USAID/Sudan finalized Amendment 3 to the Grant Agreement for the Agricultural Planning and Statistics Project without specifying GOS' financial commitment to the project, and has not subsequently resolved this issue. This occurred because the GOS believed its contribution was too large, and because USAID/Sudan wanted to obligate funds quickly. As a result, potential future shortages of local currency threatened satisfactory accomplishment of project goals, as has occurred in the past when some project activities were stopped or postponed.

Recommendation No. 2

We recommend that USAID/Sudan obtain a written statement from the Government of Sudan, to clearly specify the amount and conditions of host government's future financial contribution to the project.

Discussion.

A.I.D. Handbook 3 stated that the Project Grant Agreement reflects the commitments agreed upon by the two parties to achieve project goals. The Agreement sets forth firm commitments that must be complied with. It must be signed by officials formally authorized to do so in order to commit the host government. Significant issues should not be left for resolution during implementation. The Handbook also specified that problem areas must, where feasible, be negotiated and agreed to by the parties prior to signing the Agreement to avoid later misunderstandings, and to avoid losing the leverage afforded by signing the agreement.

The APS Project does not have an enforceable commitment from the GOS concerning its financial support to the project. On April 30, 1987, a GOS official signed Amendment No. 3 to the APS Grant Agreement, but only after deleting specific provisions concerning GOS' financial contribution and substituting a statement that "Grantee Resources for the Project shall be determined by a separate letter to be agreed upon by the two parties."

On May 2, 1987, the USAID/Sudan Director signed the Amendment, thereby entering into the agreement without the host government being committed to a very important issue critical to project success. As discussed below, shortly afterwards the project ran into serious local currency shortages, but USAID/Sudan had lost the leverage for dealing with them.

USAID/Sudan twice tried unsuccessfully to use Project Implementation Letters (PIL) to definitize GOS' financial contribution. PILs 9 and 10, July 12, 1987 and October 1, 1987, respectively, were sent to the GOS requesting countersignature of an agreement specifying the GOS contribution. Although neither PIL was signed by the GOS, USAID/Sudan officials believed that a letter from the GOS had definitized its financial commitment. On October 1, 1987, a GOS official sent a letter, referencing PIL No. 9 stating, "the GOS agrees to commit its contribution to the project, which is equivalent to LS (Sudanese Pounds) 12.8 million" ^{1/}. The letter requested USAID/Sudan concurrence to budget LS 4.7 million of the LS 12.8 million under unallocated items. On November 19, 1987, USAID/Sudan responded with a letter that agreed to the request, but requiring that all other budget items be the joint responsibility of A.I.D. and GOS. Neither letter was countersigned by the other party.

We believe the correspondence cited above does not constitute an enforceable commitment of the GOS, nor does it satisfy important provisions concerning the GOS commitment as originally appeared in Amendment No. 3 for the following reasons:

- The matter was too important to definitize without amending the grant agreement. The A.I.D. Handbook stated that PILs should be used only for minor changes to grant agreements.
- A jointly-signed agreement has not been executed.
- The LS 12.8 million agreed to by the GOS was not consistent with Amendment No. 3 as drafted, which stated total funding was almost LS 18 million.
- The October 1, 1987 letter was not signed by an official legally authorized to commit the GOS. According to GOS officials, the signer was a relatively minor GOS official.

^{1/} (The rate of exchange between the U.S. dollar and the Sudanese pound, as of the date of this report was \$1.00 = LS4.45)

- The October 1, 1987 letter lacked specificity in that it didn't address local currency uses or timing, nor address the GOS absorbing an increasing share of recurrent costs during project implementation.

This situation occurred because, according to several USAID/Sudan officials, the USAID/Sudan Project Director wanted to obligate funds quickly despite GOS' unwillingness to commit to the project's local currency budget as presented. On May 15, 1987, 13 days after the Director signed the amendment, Sudan was expected to reenter a period when obligation of the funds may have been temporarily restricted. As mission officials believed they had agreement in principle with GOS concerning future funding levels, it entered into an agreement that did not specify GOS' future financial contribution to the project.

The GOS was unwilling to commit itself to the local currency budget because, according to GOS officials the GOS Ministry of Finance and Economic Planning officials believed the amount was excessive given the project's inherent value and beyond the MANR's implementing department's ability to absorb and utilize well, and because past financial management of the project's local funds had been unsatisfactory. By deleting specific parts of Section 3.2 of Amendment No. 3, GOS officials satisfied USAID/Sudan's desire to reach agreement quickly, while withholding its financial commitment.

The effect of GOS' lack of commitment was soon felt. According to GOS' semiannual Project Implementation Report (PIR) for the first six months of 1987, the project had only LS 463 (about \$103) available as of June 30, 1987. The same report cited as a major action requiring resolution the lack of reliable local currency funds to support project activities. USAID/Sudan's semiannual September 1987 PIR made the same statement, and PIL No. 10, October 1, 1987, stated the project was close to closing down due to lack of funds. Other reports and correspondence showed that many project activities were postponed or cancelled because of local currency shortages, including the annual survey of crop production, which was a very important MANR activity.

USAID/Sudan stated they believed the local currency problem has now been resolved. They believe a change in management responsibilities has improved the project's financial management and that mission improvements over management of local currencies have resulted in USAID/Sudan and the GOS now having an excellent dialogue on local currency issues.

However, we believe this matter clearly requires resolution. The issue is an important one and needs definitization and formalization, in accordance with A.I.D.'s Handbook 3. Local currency shortage have adversely affected the project for several years, and could recur.

Management Comments

By letter, April 28, 1988, the Under Secretary for Planning, Ministry of Finance and Economic Planning committed the GOS to support the APS project with the specific amount of local currency funding as was originally contained in Amendment No. 3 to the Grant Agreement.

Office of the Inspector General Comment

The cited letter, signed by an authorized GOS official, satisfies the recommendation to obtain a binding financial commitment from the GOS to the APS project.

5. A.I.D.-Financed Commodities Were Not Adequately Controlled.

Contractors were required to control A.I.D.-financed property and submit an annual inventory report to the Mission. However, A.I.D.-financed commodities totalling about \$628,000 were not adequately controlled. This situation occurred because the mission did not enforce the relevant provisions of its contract with the technical analysis contractor and the contractor did not take measures to ensure its staff in the Sudan performed in accordance with the contract. As a result, A.I.D.-financed commodities valued at about \$628,000 were not accounted or cared for properly, creating an increased risk of fraud or abuse.

Recommendation No. 3

We recommend that the Director, USAID/Sudan require the contractor to:

- a. Install an adequate system to control, protect, preserve, and maintain A.I.D.-financed property.
- b. Submit to the Mission an annual inventory verification report in a form and manner acceptable to A.I.D., ensuring the report reconciles to inventory lists and other records.

Discussion

A.I.D. Handbook 19 required that contractors maintain adequate custody records for A.I.D. property. A.I.D. contracts were to hold the contractor accountable for Government property, and require the contractor to establish and maintain a system to control, protect, preserve, maintain and submit an annual report on Government property. The records maintained should include description, location and price of each item. A verification of the property's existence should be included on the annual report in which the contractor must attest that physical inventories of Government property were taken not less frequently than annually, and that the accountability records maintained for A.I.D. property agreed with such inventories.

USAID/Sudan's contract with Checchi and Company Consulting, included a provision that required the contractor to prepare and establish a program for receipt, use, maintenance, protection, custody, and care of non-expendable property for which it had custodial responsibility, including the establishment of reasonable controls to enforce such a program. Further, the contract stated that the contractor shall be directly responsible for and accountable for all Government property provided under this contract.

A serious breakdown in internal controls occurred because A.I.D. - financed commodities valued at about \$628,000 were not being adequately controlled or preserved. There were problems with control, procurement, storage and maintenance. Overall, USAID/Sudan did not require the safeguards required for A.I.D. financed commodities and the technical assistance contractor had not complied with its contractual agreement to safeguard the property.

Normal control systems were not in use. Neither USAID/Sudan nor the contractor maintained an inventory of commodities purchased under the project. Inventories subsequently compiled for purposes of this audit did not reconcile to financial records; that is, the inventory showed purchases of \$752,552, while financial records showed purchases of \$628,942. Inventory lists did not form a basis for annual inventory in that neither the location of the items was shown nor the identification numbers of the equipment annotated to the list or affixed to the equipment. Most significantly, annual inventories had not been taken.

Procurement procedures used to acquire the commodities were also inappropriate. Until mid-1986, the technical assistance contractor purchased commodities haphazardly, without approval of USAID/Sudan. Purchases were not coordinated among the technical assistance staff. Procurement documentation was often unavailable: purchase orders, receiving and inspection reports, and invoices were often not on file and could not be provided. Because receiving reports had not been completed, the project officer's certification of the contractor invoices was made without direct knowledge that the invoiced commodities had been received.

Commodities were also inappropriately safeguarded. There was no program to record issuance, use, maintenance and repair status of property, or its availability for project use. Of 13 vehicles examined, 9 were inoperative; of the nine, two did not have engines and seven had problems ranging from lack of parts or tires and engine failure. However, USAID/Sudan subsequently reported that six vehicles had been repaired and were roadworthy.

This situation occurred because USAID/Sudan had not enforced the relevant provisions of its contract with Checchi. In addition, the contractor did not instruct the administrative support staff to perform in accordance with the relevant provision of the contract.

Management Comments

USAID/Sudan stated that the previous contractor has completed and verified a list of all items procured. All items are now in the hands of the GOS, pending arrival of the new contract team. The required annual inventory verification reports have been prepared for the period of the previous contract. The new contract team has been charged with maintaining, updating the inventory and providing an annual verification report.

Office of the Inspector General Comments

The cited actions are responsive to the recommendations. The recommendation will be closed upon receipt by this office of the most recent annual inventory verification report for the previous contract, and evidence that the new contract team has been charged with the cited institutions regarding inventories.

4. Sub-obligations of \$260,000 Should Be Deobligated

A.I.D. Handbook 3 stated that excess funds should be deobligated whenever it was certain that obligations exceeded the amount required. Sub-obligations for the APS project exceeded requirements by about \$260,000. This occurred because USAID/Sudan had not periodically reviewed its need for the funds. As a result, about \$260,000 was not available for other requirements.

Recommendation 4

We recommend that USAID/Sudan deobligate funds no longer needed, according to Exhibit 3 of this report.

Discussion

A.I.D. Handbook 3 stated that excess funds should be deobligated whenever it was certain that the amount exceeded that required. However, USAID/Sudan had received about \$260,000 (Exhibit 2) for purposes for which the funds were no longer required, some of which had been reserved years ago and were likely not needed. This occurred because USAID/Sudan had not periodically reviewed its needs for the funds. Deobligating these funds will make them available for other project requirements.

Management Comments

USAID/Sudan agreed with the recommendation and completed action by May 1988 to deobligate the funds.

Office of the Inspector General Comments

The cited action is responsive to the recommendation. The recommendation will be closed upon receipt by this office of evidence that shows the action has been taken.

B. Compliance and Internal Control

Compliance

Finding 1 disclosed that USAID/Sudan had not complied with A.I.D. Handbook requirements to establish quantifiable indicators that could provide a basis for determining whether project objectives were being achieved. Finding 2 reported that USAID/Sudan had entered into an agreement with the GOS without first resolving a significant issue involving project implementation. Finding 3 identified that USAID/Sudan had not required that the technical assistance contractor implement required controls over project-funded commodities.

Internal Control

Finding 2 reported that the USAID/Sudan Director signed an Amendment to a Grant Agreement without the host government having been committed to a very important issue critical to project success. In addition, Finding 2 and the Other Pertinent Matters section of this report disclosed that USAID/Sudan accepted the signature other than of an authorized GOS official as binding the GOS on an important issue, and that USAID/Sudan had not kept current its record of authorized officials who could bind the GOS. Finding 3 reported that USAID/Sudan internal controls over commodities were inadequate to safeguard U.S. interests. Lastly, the Other Pertinent Issues section reports that controls over local currency trust funds controlled by the technical assistance contractors were insufficient to adequately protect U.S. interests.

C. Other Pertinent Matters

The Mission authorized the technical assistance contractor, Checchi and Company Consulting, Inc. to establish a local currency bank account. In so doing, it required an adequate accounting system to control the fund. The account was opened in April 1987 in the contractor's name at the Sudanese International Bank, Khartoum with an initial local currency deposit equivalent to about \$37,000. The audit showed that a check disbursement register was not maintained, invoices were not approved by USAID/Sudan prior to payment, and contractor staff members were advanced local currency funds from the equivalent of \$450 to \$4500, far beyond their immediate needs. These deficiencies increased the potential for fraud and abuse. We recommend that USAID/Sudan enforce the procedures outlined in its letter of December 26, 1986 authorizing the account, and that advances be kept to the minimum.

A condition precedent in the Project's original grant agreement required submission to the mission of the names, together with specimen signatures, of authorized personnel to represent the host government in implementing the agreement. However, persons subsequently signing project documents, including the Minister and Undersecretary of the Sudanese Ministry of Finance and Economic Planning, were not included among authorized representatives initially as agreed upon by the two parties. We recommend that the two parties reach a new agreement concerning the names of GOS officials authorized to commit the GOS on legal matters concerning the APS Project.

AUDIT OF
SUDAN AGRICULTURAL PLANNING AND STATISTICS PROJECT

PART III - EXHIBITS AND APPENDICES

Funding Status as of February 16, 1988
(\$000 omitted)

<u>Category</u>	<u>Estimated Costs</u>	<u>Commitments</u>	<u>Disbursements</u>
Technical Analysis	\$ 8,326	\$4,904	\$4,128
Training	2,515	1,237	633
Commodities	1,225	600	391
SERISS <u>1/</u>	800	-	-
Other Costs	212	7	-
Contingency	892	-	-
Inflation	560	-	-
Totals	<u>\$14,530</u>	<u>\$6,748</u>	<u>\$5,152</u>

1/ "SERISS" is an abbreviation for Sudan Emergency Recovery Information and Surveillance System.

Schedule of Unliquidated Obligations
As of February 16, 1988

<u>Description</u>	<u>Amount</u>
Goetsch services for 12 months	\$ 37,676
Project Evaluation	23,312
Purchase Eros Data Center	4,475
Uncommitted portion of Technical Assistance Agreement	185,559
Education Allowance for Edward Lippert	<u>10,080</u>
 Total	 <u>\$261,102</u>

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Report Recommendations

Page

Recommendation No. 1

We recommend that USAID/Sudan in coordination with the Government of Sudan:

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- a. Develop and implement a system to identify those policy issues and problems toward which the project can effectively contribute. The system must show evidence of analysis as to which studies are important to Sudan and evidence of coordination among the Government of Sudan ministries that use the data and make agricultural policy decisions.
- b. Institute a management system to relate work plans to those work requirement issues identified in recommendation 1 (a) above, and thereby establish a basis for making sure work progress is directed toward those efforts. The management system must include provisions to show how work is coordinated among contributing analysts, and to report on specific progress toward the requirements.

Recommendation No. 2

We recommend that USAID/Sudan obtain a written statement from the Government of Sudan, to clearly specify the amount and conditions of host government's future financial contribution to the project.

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Recommendation No. 3

We recommend that the Director, USAID/Sudan require the contractor to:

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- a. Install an adequate system to control, protect, preserve, and maintain A.I.D.-financed property.
- b. Submit to the Mission an annual inventory verification report in a form and manner acceptable to A.I.D., ensuring the report reconciles to inventory lists and other records.

Recommendation 4

We recommend that USAID/Sudan deobligate funds no longer needed, according to Exhibit 3 of this report.

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ACTION: AID-3 INFO: ECON RLO

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13-JUN-88 TOR: 07:29

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CHRG: AID

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ADD:

FM AMEMBASSY KHARTOUM

TO AMEMBASSY NAIROBI IMMEDIATE 9077

BT

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THE FOLLOWING PREVIOUSLY SENT TO SECSTATE ON 26 MAY
BEING REPEATED FOR YOUR ACTION. QUOTE.
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AIDAC

P.O. 12356: N/A

SUBJECT: SUDAN - DRAFT REPORT, AUDIT OF SUDAN
AGRICULTURE PLANNING AND STATISTICS PROJECT NO. 650-0247

SUMMARY: USAID/KHARTOUM HAS REVIEWED THE SUBJECT DRAFT
AUDIT AND SUBMITS THE FOLLOWING COMMENTS FOR
CONSIDERATION IN FINALIZING THE REPORT.

1. RECOMMENDATION 1. WE RECOMMEND THAT USAID/SUDAN IN
COORDINATION WITH THE GOVERNMENT OF SUDAN:

(A) DEVELOP AND IMPLEMENT A SYSTEM TO IDENTIFY THOSE
POLICY ISSUES AND PROBLEMS TOWARD WHICH THE PROJECT CAN
EFFECTIVELY CONTRIBUTE. THE SYSTEM MUST SHOW EVIDENCE
OF ANALYSIS AS TO WHICH STUDIES ARE IMPORTANT TO SUDAN
AND EVIDENCE OF COORDINATION AMONG THE GOVERNMENT OF
SUDAN MINISTRIES THAT USE THE DATA AND MAKE AGRICULTURAL
POLICY DECISIONS.

(B) INSTITUTE A MANAGEMENT SYSTEM TO RELATE WORK PLANS
TO THOSE WORK REQUIREMENT ISSUES IDENTIFIED IN
RECOMMENDATION 1 (A) ABOVE, AND THEREBY ESTABLISH A
BASIS FOR MAKING SURE WORK PROGRESS IS ORIENTED TOWARD
THOSE EFFORTS. THE MANAGEMENT SYSTEM MUST SHOW HOW WORK
IS COORDINATED AMONG CONTRIBUTING ANALYSTS TOWARD
APPROVED REQUIREMENTS, AND REPORT ON SPECIFIC PROGRESS
TOWARD THE REQUIREMENTS.

(C) ESTABLISH QUANTIFIABLE INDICATORS FOR ACHIEVING
PROJECT OBJECTIVES AND FOR OUTPUTS RELATED TO IMPROVED
CAPABILITY OF THE MINISTRY OF AGRICULTURE AND NATURAL
RESOURCES.

REF RECOMMENDATION (A). A POLICY ISSUES MATRIX WHICH
RATES THE IMPORTANCE OF ISSUES AND DEFINES THE EXTENT OF
THE DATA GAPS WHICH EXIST WAS COMPILED BY THE CECCHI
CONTRACT TEAM POLICY ANALYST. THE MATRIX SERVED AS A
GUIDE FOR POLICY ISSUES SELECTION. IT WAS NOT
RIGOROUSLY ADHERED TO NOR WERE OTHER MINISTRIES INCLUDED
IN THE SELECTION OF AREAS FOR STUDY. THE NEW CONTRACT
TEAM WILL DEVELOP A MATRIX BASED ON CURRENT INFORMATION

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WEICE WILL LIST ASSESSMENT NEEDS, RATE THEM AS TO IMPORTANCE TO SUDAN, AND INDICATE WHAT DATA GAPS NEED TO BE FILLED BEFORE ANALYSIS CAN BE DONE. THIS MATRIX WILL BE DISCUSSED AND APPROVED BY THE STEERING COMMITTEE WHICH INCLUDES REPRESENTATIVES FROM THE MINISTRY OF FINANCE AND ECONOMIC PLANNING AND THE UNIVERSITY OF KEARTOUM STAFF. THE COMMITTEE IS CHAIRED BY THE UNDER SECRETARY FOR AGRICULTURE.

REF RECOMMENDATION (B). WHEN POLICY AREAS ARE SELECTED (FOR THE ABOVE PARA) ANNUAL WORK PLANS FOR EACH TEAM MEMBER ARE DEVELOPED. IN THE PAST THESE WORK PLANS WERE NOT INTEGRATED. USAID HAS RECOGNIZED THIS AS A PROBLEM AND THE NEW CONTRACT TEAM LEADER IS BEING CHARGED WITH THE RESPONSIBILITY OF COORDINATING WORKPLANS AND INTEGRATING THEM INTO THE ANNUAL WORKPLANS OF THE MINISTRY OF AGRICULTURE AND NATURAL RESOURCES (MANR.) BOTH WORKPLANS AND LOCAL CURRENCY BUDGETS WILL CLEARLY INDICATE HOW WORK IS TO BE COORDINATED AND IN WHICH PRODUCTION REPORTS ARE THE ESTABLISHED BENCHMARKS OF THE PROJECT. QUARTERLY IMPLEMENTATION REPORTS REQUIRED OF EACH CONTRACT STAFF WILL INDICATE PROGRESS TOWARD ACHIEVING WORK REQUIREMENTS.

REF RECOMMENDATION (C). AS IN ANY INSTITUTIONAL BUILDING ACTIVITY IT IS EXTREMELY DIFFICULT TO ESTABLISH QUANTIFIABLE INDICATORS OF IMPROVED CAPACITY. THE MISSION HAS BEEN USING PROJECT REPORTS AS AN INDICATION OF THE MINISTRY'S INCREASING CAPABILITY TO COLLECT AND ANALYZE DATA. A SECOND EVALUATION IS SCHEDULED FOR NOVEMBER 1988. THE EVALUATORS WILL BE CHARGED WITH ASSESSING CURRENT MANR CAPABILITIES AS COMPARED WITH TOSC AT THE ONSET OF THE PROJECT AS IS OUTLINED IN THE MID-TERM EVALUATION. IN THE DISCUSSION SECTION FOR RECOMMENDATION NO. 1, SEVERAL POINTS WERE RAISED WHICH USAID FEELS REQUIRE CLARIFICATION. THE FOLLOWING COMMENTS REGARDING THESE POINTS ARE REFERENCED TO PAGE NUMBERS AND PARAS IN THE DRAFT AUDIT.

PAGE 12, PARA 2
THE NAME OF THE POLICY ANALYSIS AND PLANNING (PAE) DEPARTMENT HAS BEEN OFFICIALLY CHANGED. OTHER PAPA DEPARTMENTS WERE ADVISED; TWO OFFICIAL NOTIFICATIONS IN ARABIC WERE ISSUED. USAID RECEIVED THE ENGLISH VERSION OF THE NOTIFICATION. PERSONNEL WERE NOT INITIALLY CHANGED, DUE TO LACK OF ALTERNATIVE STAFF ALTHOUGH THIS HAS SINCE BEEN ACCOMPLISHED. IN ADDITION, OUTSIDE

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CONSULTANTS HAVE, THIS LAST YEAR, BEEN INCLUDED IN POLICY ANALYSIS MEETINGS.

PAGE 13, PARA 1

WHILE IT IS TRUE THAT BACKGROUND STUDIES FOR KEY POLICY ISSUES WERE WELL UNDERWAY WHEN PROJECT REQUIREMENTS WERE ESTABLISHED ON MAY 21, 1987, THESE KEY POLICY ISSUES WERE SELECTED BECAUSE THEY ARE OF PRIMARY CONCERN TO THE GOS. THEY INCLUDE WHEAT PRICING POLICY, SESAME AND SORGHUM STUDIES AS WELL AS COTTON AND GUM ARABIC ANALYSIS. IT SHOULD BE NOTED HERE THAT THESE 5 CROPS - WHEAT, SESAME, SORGHUM, COTTON, GUM ARABIC - ARE THE MAIN STAPLE AND EXPORT CROPS. THEY WILL CONTINUE TO BE IN THE FOREGROUND OF POLICY ANALYSES WORK BOTH FOR FLOOR PRICE ESTABLISHMENT AS WELL AS FOR AN ANALYSIS OF COMPETITIVENESS IN THE EXPORT MARKET.

RECURRENT STUDIES ALSO INCLUDE A SET OF DATA COLLECTION WHICH HAD TO BE COMPLETED EVERY YEAR IN ORDER TO GAIN TIME SERIES DATA. THIS DATA COLLECTION IN THE TRADITIONAL AND RAINFED SECTORS IS NOW COMPLETE FOR A FOUR YEAR PERIOD AND WILL NOT LIKELY BE A FIELD OF CONCENTRATION IN 88-89. HOWEVER UPDATES ON PRODUCTION FUNCTIONS MUST CONTINUALLY BE SUPPLIED. USAID IS UNCLEAR AS TO WHAT EXACTLY THE LAST SENTENCE PARA 1 IMPLIES AND WE REQUEST CLARIFICATION AS TO WHICH STUDY THE AUDITORS ARE REFERRING.

PAGE 13 LAST PARA. REQUESTS FOR POLICY ANALYSIS FREQUENTLY COME DIRECTLY FROM THE MINISTER. THIS HAS BEEN TRUE IN THE PAST FOR SORGHUM, SUNFLOWER AND SESAME STUDIES AND WILL LIKELY CONTINUE UNDER THE NEW MINISTER. THE WORLD BANK REGULARLY USES AND CITES AG ECCO PUBLICATIONS. IN FACT AT THE LATEST DONOR AGRICULTURE SECTOR COORDINATION MEETING IN APRIL, THE WORLD BANK CHAIRMAN PRESENTED A SUMMARY OF AGRICULTURE STATISTICS FOR THE CROP YEAR 87/88 BASED ON THE LATEST PROJECT SITUATION REPORT. TWO HUNDRED FIFTY COPIES OF PRODUCTION ECONOMIC REPORTS WERE DISTRIBUTED; THE REMAINING OFFICE COPIES ARE FREQUENTLY XEROXED FOR INFORMATION. USAID CONCERNS THAT IN THE PAST OTHER MINISTRIES WERE NOT SUFFICIENTLY CONSULTED OR INCLUDED IN STUDIES. WITH THE ESTABLISHMENT OF A MULTI-MINISTERIAL STEERING COMMITTEE WE BELIEVE THAT PROBLEM HAS BEEN ADDRESSED. IN ADDITION, THE NEW CONTRACTING TEAM PROPOSES TO ESTABLISH A DOCUMENTATION CENTER IN MANR. THIS WILL INCREASE INTER-MINISTERIAL CIRCULATION OF REPORTS.

PAGE 14, PARA 1. USAID WAS AWARE OF THE PROBLEMS RELATING TO TEAM COORDINATION AND HAD TAKEN STEPS TO ESTABLISH COORDINATION AMONG TEAM MEMBERS. TWICE THE POSITION OF PROJECT COORDINATOR WAS ESTABLISHED AND TWICE IT HAD TO BE CANCELLED FOR REASONS DISCUSSED IN THE EXIT INTERVIEW WITH THE AUDITORS. IT SHOULD BE REMEMBERED THAT TEAM MEMBERS HAD JUST RETURNED FROM A VERY TRYING SEVEN MONTH EVACUATION TO THE US WHEN CURRENT MISSION STAFF ASSUMED MANAGEMENT OF THE PROJECT. THE PROJECT WAS CONSIDERABLY BEHIND IN STATED

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GOALS AND OBJECTIVES AND WE WERE FACED WITH DISMISSING ALL THREE ADVISORS IN MIDSTREAM OR ATTEMPTING TO COORDINATE THE CONTRACT OURSELVES. WE DEEMED THE LATTER COURSE TO BE THE LEAST DISRUPTIVE AND THE MOST EXPEDITIOUS WAY OF BUILDING UPON THE MOMENTUM CREATED BY THE PROJECT.

2. RECOMMENDATION NO.2. WE RECOMMEND THAT USAID/SUDAN AMEND THE GRANT AGREEMENT WITH THE GOVERNMENT OF SUDAN TO CLEARLY SPECIFY THE AMOUNT AND CONDITIONS OF GOS'S FINANCIAL CONTRIBUTION, INCLUDING INCORPORATING A PROVISION THAT THE GOS SUPPORT AN INCREASING SHARE OF RECURRENT COSTS THROUGH THE PROJECT COMPLETION DATE. THE MISSION AND THE GOS AGREEMENT FOR LOCAL CURRENCY SUPPORT WAS OUTLINED IN PIL NO. 9 AND CONFIRMED IN THE GOS' LETTER OF 1 OCTOBER 1987. A QUESTION AS TO THE VALIDITY OF THE AGREEMENT WAS RAISED DURING THE AUDIT REVIEW, AND A LEGAL OPINION WAS SOUGHT. THE OPINION IS CITED BELOW.

PFR NAIRCHI 10211 PARA 3 (RLA) DATED APRIL 13, 1988.
QUOTE. THE PROPER GOS OFFICIAL TO REPRESENT THE GOS IN EACHING AGREEMENT ON THE LEVEL OF GRANTEE CONTRIBUTION TO THE PROJECT SHOULD HAVE BEEN THE PRINCIPAL REPRESENTATIVE OF THE GRANTEE NAMED IN SECTION 9.2 OF THE GRANT AGREEMENT, THE UNDER SECRETARY (PLANNING) OF MINISTRY OF FINANCE AND ECONOMIC PLANNING. END QUOTE.

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USAID/SUDAN DISCUSSED THIS ISSUE WITH GOS COUNTERPARTS AND HAS RECEIVED A LETTER FROM THE UNDERSECRETARY FOR PLANNING, MINISTRY OF FINANCE AND ECONOMIC PLANNING IN RESPONSE TO FIL NO. 9 RECONFIRMING THE GOS' CONTRIBUTION TO THE PROJECT AS CITED IN THEIR OCTOBER 1 LETTER. THE LETTER IS CITED BELOW FOR YOUR INFORMATION.

QUOTE. APRIL 28, 1988
JOHN W. KOERING, DIRECTOR, USAID, KHARTOUM

SUBJECT: AGRICULTURAL PLANNING AND STATISTICS
(680-0047) AMENDMENT NO. 3

REF: IMPLEMENTATION LETTER NO. 9 DATED JULY 12, 1987

DEAR MR. KOERING,

THE PURPOSE OF THIS LETTER IS TO PROVIDE CLARIFICATION TO OUR LETTER TO YOU ON THE ABOVE SUBJECT DATED 1ST OCTOBER 1987 AND SIGNED ON MY BEHALF BY EL SHEIKH EL AHMED AHMED. IN THIS REGARD, I REFER TO YOUR LETTER DATED JULY 12, 1987 AND ATTACHMENTS, AND AS SPECIFIED IN AMENDMENT NO. 3 TO THE AGREEMENT, I WOULD LIKE TO INFORM YOU OF THE FOLLOWING:

(A) THE GOVERNMENT OF SUDAN, AGREED TO COMMIT THE EQUIVALENT OF 7,141,975 US DOLLARS, OR APPROXIMATELY AN ADDITIONAL LS 12.8 MILLION AS PART OF THE LOCAL CURRENCY BUDGET FOR THE SAID PROJECT. THESE FUNDS, IN ADDITION TO THE LS 9.2 MILLION PREVIOUSLY AGREED TO, BRINGS THE TOTAL AMOUNT OF LOCAL CURRENCY COMMITTED TO APPROXIMATELY LS 17,982,000 FOR THE AGRICULTURAL PLANNING AND STATISTICS PROJECT THROUGH THE LIFE OF THE PROJECT (UNTIL MAY 1ST, 1991).

(B) THE CONCURRENCE OF THE GOVERNMENT OF SUDAN WITH THE REVISED PROJECT LOCAL CURRENCY BUDGET ATTACHED TO PROJECT IMPLEMENTATION LETTER NO. 9 WITH THE RESERVATION OF THREE LINE ITEMS FOR STEERING COMMITTEE APPROVAL AS WE DESCRIBED IN OUR OCTOBER 1ST LETTER TO USAID.

THANK YOU FOR YOUR COOPERATION AND BEST REGARDS.

SINCERELY YOURS

(SIGNED) DR. EL SAYED ALI AHMED ZAKI, UNDER SECRETARY
FOR PLANNING, MINISTRY OF FINANCE AND ECONOMIC
PLANNING. END QUOTE.

CONSEQUENTLY, USAID/SUDAN DOES NOT BELIEVE ANOTHER AMENDMENT AS SUGGESTED IN THIS RECOMMENDATION IS NEEDED AT THIS TIME.

NEGOTIATIONS WITH THE GOS ON COVERING RECURRENT COSTS PRECEDED PROJECT AUTHORIZATION. DURING DEVELOPMENT OF THE PP AMENDMENT 2 THE GOS AGREED TO COVER COSTS FOR OFFICE SPACE, EQUIPMENT, SALARIES AND OTHER BENEFITS OF THE STAFF SECONDED TO THE PROJECT AND THE USE OF MANR

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FACILITIES FOR TRAINING AND SEMINARS. ALTHOUGH THESE COSTS HAVE BEEN AND ARE BEING COVERED BY THE GOS, THESE COSTS WERE NOT INCLUDED IN THE PROJECT GOS CONTRIBUTION BUDGET. IN THE FP AMENDMENT NO. 2 LOCAL CURRENCY BUDGET (PAGES 28 AND 32) AND GRANT AGREEMENT AMENDMENT NO. 3 BUDGET (PAGES 7 AND 9) THE GOS AGREED TO COVER AN INCREASING PERCENTAGE OF LOCAL CURRENCY COSTS THROUGH THE MARR ANNUAL BUDGET. MARR CONTINUES TO PUSH FOR AN INCREASED BUDGET ALLOCATION, BUT THE CURRENT ECONOMIC SITUATION HAS CAUSED THE GOS TO BE RELUCTANT IN MAKING LONG TERM MINISTERIAL BUDGET COMMITMENTS. IT SHOULD BE NOTED THAT ALL OF THE LOCAL CURRENCY SUPPORT TO THE PROJECT COMES FROM THE GOS MANAGED LOCAL CURRENCY WHICH IS INCLUDED IN THE GOS BUDGET, THUS THEY ARE COVERING ALL RECURRENT COSTS ALTHOUGH NOT THROUGH THE MARR BUDGET.

REF DRAFT REPORT PAGE 20 PARA 2. THE MISSION TAKES EXCEPTION TO THE COMMENTS RAISED IN THIS PARAGRAPH AND PROVIDES THE FOLLOWING DETAILS TO CLARIFY THE IMMEDIATE NEED FOR OBLIGATION. THE MISSION HAD PLACED A HIGH VALUE ON THE CONTINUANCE OF THIS PROJECT AS PROGRESS HAD BEEN SLOW, AND THIS PROJECT WAS A BASIS FOR ALL OTHER AGRICULTURE PROJECTS. THE GRANT AGREEMENT AMENDMENT COVERED TWO ACTIONS--THE EXTENSION OF THE PACD AND THE ADDITION OF FUNDS. THE ORIGINAL PACD WAS APRIL 30, 1987. PER DISCUSSIONS WITH GOS OFFICIALS, THE TOTAL GOS FUNDING WAS AGREED UPON IN PRINCIPLE, BUT THERE WERE BUDGET DETAILS WHICH REQUIRED ADDITIONAL DISCUSSION AS

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CONFIRMED BY THE OCTOBER 1 LETTER AND THE LETTER CITED ABOVE. IN RETROSPECT, THE MISSION SHOULD HAVE SIMPLY SPECIFIED A LUMP SUM AMOUNT OF LOCAL CURRENCY CONTRIBUTION WITHOUT A BUDGETARY BREAKDOWN. NOTHING IN THE POST-SIGNATURE DIALOGUE SUGGESTED THAT THE AMOUNT RATHER THAN ITS DISTRIBUTION WAS AT ISSUE. IN SUDAN WHERE WE ARE FACED WITH 11 BROOKS SANCTION SENSITIVE DATES AND 12 C20(Q) SENSITIVE DATES, 13 DAYS (MAY 2 SIGNING DATE TO MAY 15 BROOKS DATE) IS CONSIDERED TO BE A VERY SHORT INTERVAL IN TERMS OF OBLIGATION DEADLINES.

3. RECOMMENDATION 3. WE RECOMMEND THAT THE DIRECTOR, USAID/SUDAN REQUIRE THE CONTRACTOR TO:

(A) INSTALL AN ADEQUATE SYSTEM TO CONTROL, PROTECT, PRESERVE, AND MAINTAIN A.I.D. FINANCED PROPERTY.

(E) SUBMIT TO THE MISSION AN ANNUAL INVENTORY VERIFICATION REPORT IN A FORM AND MANNER ACCEPTABLE TO A.I.D., ENSURING THE REPORT RECONCILES TO INVENTORY LISTS AND OTHER RECORDS.

USAID CONCURS IN THE OVERALL RECOMMENDATION THAT ADEQUATE RECORDS OF PROCUREMENT WERE NOT KEPT. CHECCHI HAS COMPLETED A LIST OF ALL ITEMS PROCURED AND THAT LIST HAS BEEN VERIFIED. ALL CHECCHI PROCURED ITEMS ARE NOW IN THE HANDS OF THE MINISTRY UNTIL THE NEW CONTRACT TEAM TAKES OVER. THE REQUIRED ANNUAL INVENTORY VERIFICATION REPORTS HAVE BEEN PREPARED AND ARE IN THE PROJECT FILE FOR THE PERIOD COVERED UNDER THE CHECCHI CONTRACT. THE NEW CONTRACT TEAM HAS BEEN CHARGED WITH MAINTAINING, UPDATING THE INVENTORY AND PROVIDING THE MISSION WITH THE ANNUAL INVENTORY VERIFICATION REPORT. A TWO YEAR EXERCISE IN THE INVENTORY AND RECONCILIATION OF PROJECT PROCURED HOUSEHOLD FURNISHINGS HAS ALSO BEEN COMPLETED. THIS EXERCISE WAS INITIATED BY EXO LONG BEFORE THE AUDIT AND THE AUDITORS WERE ADVISED OF THE STATUS. THE FOLLOWING IS A POINT OF CLARIFICATION IN REGARD TO PAGE 26 PARA 2. SIX OF THE PROJECT PROCURED VEHICLES HAVE BEEN REPAIRED AND ARE NOW ROAD WORTHY. A SECOND

SPARE PARTS LIST HAS BEEN PREPARED FOR AID PROCUREMENT. MAINTENANCE, PARTICULARLY FOR U. S. BUILT VEHICLES HAS BEEN A CONTINUAL PROBLEM. FOR THAT REASON THE PROJECT NOW PROCURES TOYOTA VEHICLES FOR WHICH SPARES AND TRAINED MECHANICS ARE AVAILABLE.

4. RECOMMENDATION NO. 4. WE RECOMMEND THAT USAID/SUDAN, AFTER CONSULTING WITH THE GOVERNMENT OF SUDAN:

(A) DEOBLIGATE FUNDS NO LONGER NEEDED, ACCORDING TO EXHIBIT 3 OF THIS REPORT.

(E) PENDING NEGOTIATION AND COMPLETION OF THE TECHNICAL ANALYSIS CONTRACT, DEOBLIGATE FUNDS UNNEEDED FOR THE SUDAN AGRICULTURAL PLANNING AND STATISTICS PROJECT. THE AMOUNT DEOBLIGATED SHOULD BE USD 2.2 MILLION LESS THE

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AMOUNT, IF ANY, THAT THE ESTIMATED COST OF A FINALIZED TECHNICAL ANALYSIS CONTRACT EXCEEDS USD 2.6 MILLION. USAID/SUDAN IS PROVIDING THE FOLLOWING UP-DATED SCHEDULES AS A RESPONSE TO THIS RECOMMENDATION. EXHIBIT 3 LISTED UNLIQUIDATED OBLIGATIONS AS OF FEBRUARY 16 WHICH THE AUDIT TEAM RECOMMENDED THAT DECOMMITMENTS AND DEEARMARKINGS BE DONE TO FREE THE FUNDS FOR OTHER PROJECT PURPOSES. THE CONTROLLER'S OFFICE HAS REVIEWED THESE LINE ITEMS IN DETAIL. OF THE ORIGINAL PROPOSED DEEARMARKING OF USD 434,546 WE HAVE IDENTIFIED USD 256,158 FOR DEEARMARKING. THE BALANCE OF USD 178,388 WILL BE OR HAS BEEN UTILIZED IN SUPPORT OF THE PLANNED ACTIVITIES PER REVISED EXHIBIT 3 WHICH FOLLOWS.

REVISED EXHIBIT 3
SCHEDULE OF UNLIQUIDATED OBLIGATIONS

REFERENCE DESCRIPTION	AMOUNT			COMMENTS DATES OF DEEARMARK/DECOMMIT
	PER PRE-DRAFT	DE-EARMARK	DE-COMMIT	
PIO/T 20052 GOLTSCH SERVICES 12 MONTHS	37,676	37,676	37,676	COMPLETED 5/88
PIO/T 30077 RONCO 100 EVALUATION	23,312	23,312	0	COMPLETED 3/88 DECOMMITTED 6/86

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PIC/C 20014 4 SETS RE IURN AND APPL.					ALL FUNDS WILL BE EXPENDED UNDER THESE PIO/CS PER GSO/ PROC. PO'S ARE BEING OR HAVE
PIO/C 20078	166,328	0	0		
PIO/C 20100					
PIO/C 20102 FROS DATA CENTER	4,475	4,475	4,475	COMPLETED	5/88
PIO/C 10046 THREE VEHICLES	7,116	(4,944)	(8,797)	UPWARD ADJUST- MENT NECESSARY TO POST RECON- CILING ITEMS . FROM RFMC. TOTAL COST USD 54,114 COMPLETED	4/88
PIO/T 20132	185,559	185,559	0	COMPLETED	5/88
PIO/T 20132	10,080	10,080	10,080	COMPLETED	5/88
- TOTALS	434,546	256,158	43,434		

USING AUDIT EXHIBIT 4, THE FOLLOWING REVISED BUDGET HAS BEEN DEVELOPED BASED ON CURRENT COST INFORMATION AND THE PROPOSED SCOPE OF ACTIVITIES AS PROVIDED IN THE PP SUPPLEMENT. WITH THIS NEW BUDGET FOR THE COMPLETION OF THE ACTIVITIES DURING THE REMAINDER OF THE LIFE OF THE PROJECT, USAID/SUDAN DOES NOT FEEL THERE ARE ANY EXCESS PROJECT FUNDS AVAILABLE FOR DEOBLIGATION AND REOBLIGATION FOR OTHER VALID PURPOSES.

AS OF FEBRUARY 16, 1988 THERE WERE USD 7,120,330 OF UN earmarked FUNDS PER EXHIBIT 1. THESE FUNDS PLUS THE FUNDS NOTED FOR DE- earmarked ABOVE (USD 256,158) TOTAL USD 7,376,488 WHICH ARE AVAILABLE FOR PROGRAMMING. THE MISSION HAS REVIEWED THE AVAILABLE FUNDS AND PROJECT OBJECTIVES, AND PRESENTS THE FOLLOWING BUDGET IN RESPONSE TO RECOMMENDATION 4 EXHIBIT 4.

PROJECT ELEMENT	REQUIREMENTS USD (000)	COMMENTS
TECHNICAL ASSISTANCE	3,152.0	CHEMCONICS AWARDED CONTRACT INCLUDES 10 PM ST-TA
-	750.0	30 PM OF ST-T/A [ADDITIONAL TA PROPOSED IN PP SUPPLEMENT. (EXHIBIT 4 NOTE A)
SUB TOTAL	3,902.0	

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TRAINING	67.5	USIS LANGUAGE TRAINING USD 45.0/YEAR (1.5 YRS OF TRAINING).
-		
-		
-	385.0	7 MASTERS DEGREES-US (1 PHD DOWNGRADED TO MASTERS DUE TO TIME CONSTRAINTS)
-		
-	300.0	ST TRAINING 3RD COUNTRY/US (4 USDA COURSES 220)
-		
-	150.0	UNSPECIFIED TRAINING TO BE PROGRAMMED AS COUNTERPART NEEDS ARE IDENTIFIED EXHIBIT 4 NOTE B.
-		
SUB-TOTAL	902.5	
COMMODITIES	272.4	3 SETS HE FURNISHINGS AT 90.8 EACH.
-		
-	120.0	VEHICLES AND SPARE PARTS PER PP SUPPLEMENT
-		

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-	50.0	COMPUTER EQUIPMENT
-		(CONTRACTOR PROCUREMENT)
-	100.0	EQUIPMENT FOR U. OF
-		KHEARTOUM, PP SUPPLEMENT
-	150.0	UNSPECIFIED COMMODITIES
-		(EXHIBIT 4 NOTE C)
SUB-TOTAL	692.4	
OTHER COSTS	110.0	EVALUATION AND AUDIT
-	14.0	AIRCRAFT RENTAL
SUB TOTAL	124.0	
CONTINGENCIES	532.1	TOTAL OF ABOVE COSTS
-		(USD (5620.9) LESS UN-
-		SPECIFIED TRAINING (USD
-		150) AND UNSPECIFIED
-		COMMODITIES (USD 150)
-		AT 10%.
INFLATION	423.5	CALCULATED PER EXHIBIT
-		4 NOTE G.
SERISS	800.0	DETERMINATION AT PIR
-		(APRIL 88) MEETINGS THAT
-		SERISS COMPONENT TO GO
-		FORTH IMMEDIATELY.
-		DOCUMENTATION NOW
-		IN PROGRESS.
SUB TOTAL	7,376.5	
AVAILABLE	7,376.5	

THE MISSION IS CONFIDENT THAT THE ABOVE REPRESENTS A REALISTIC COST ESTIMATE FOR THE PROJECT AT THIS TIME.

5) COMPLIANCE AND INTERNAL CONTROL

- A. COMPLIANCE.

AS INDICATED IN PARAGRAPH (1) ABOVE, USAID USED PROJECT REPORTS AS AN INDICATION OF THE MINISTRY'S INCREASING CAPABILITY TO COLLECT AND ANALYZE DATA. THE MISSION ALSO TOOK INTO CONSIDERATION THE INCREASED USE BY OTHER DONORS OF STATISTICS PRODUCED BY THE PROJECT AS AN INDICATION OF GOS PROGRESS IN DEVELOPING A RELIABLE AGRICULTURE DATA BASE AND REPORTING SYSTEM.

REGARDING ENTERING INTO AN AGREEMENT WITH THE GOS WITHOUT FIRST RESOLVING A SIGNIFICANT ISSUE INVOLVING PROJECT IMPLEMENTATION, AS INDICATED IN PARAGRAPH 2) ABOVE, THE LETTER DATED APRIL 28, 1988 CONFIRMS THE GOS INTENTION, EXPRESSED IN THEIR LETTER OF OCTOBER 1, 1988

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TO PROVIDE THE REQUIRED INCREASED FUNDING FOR THE PROJECT.

IN REFERENCE TO FINDING 3, REGARDING THE PROVISION BY THE TECHNICAL ASSISTANCE CONTRACTOR OF REQUIRED CONTROLS, USAID CONCURRED IN PARA 3 ABOVE THAT ADEQUATE RECORDS WERE NOT KEPT AND HAS MODIFIED THIS SITUATION AS DESCRIBED.

- B. INTERNAL CONTROL

FINDING 1 CONCERNS BETTER CONTROLS REGARDING THE USE OF QUANTIFIABLE INDICATORS TO MONITOR PROJECT PROGRESS AND HAS BEEN RESPONDED TO UNDER A: COMPLIANCE ABOVE.

FINDING 2 SUGGESTS THAT USAID ACCEPTED THE SIGNATURE OF AN OTHER THAN AUTHORIZED GOS OFFICIAL AS BINDING. WHILE THIS IS TECHNICALLY CORRECT THE UNDERSECRETARY CONFIRMED THE CONTENTS OF THE LETTER SIGNED BY THE ACTING UNDERSECRETARY SHORTLY AFTER USAID INFORMED THE GOS OF THE RLA'S VIEW REGARDING THE VALIDITY OF THE SIGNATURE.

THE QUOTE OTHER PERTINENT ISSUES UNQUOTE SECTION REPORTS THAT CONTROLS OVER LOCAL CURRENCY TRUST FUNDS CONTROLLED BY THE CONTRACTOR WERE INSUFFICIENT. UNDER THE CHECCHI CONTRACT, THE TEAM LEADER WAS RESPONSIBLE FOR COORDINATING THE ACCOUNT. WHEN THAT POSITION WAS DISSOLVED, THE CONTRACTOR APPROVED A PROGRAM BY WHICH INDIVIDUAL CONTRACTOR'S SUBMITTED THEIR REQUIREMENTS FOR

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IC ON A QUARTERLY BASIS. IF THESE ESTIMATED REQUIREMENTS CONFORMED TO CONTRACT APPROVAL LINE ITFMS, AN ADVANCE WAS GIVEN. REQUESTS WERE APPROVED IN ADVANCE BY BOTH USAID AND GOS. THE CONTRACTING TEAM HIRED AN ACCOUNTANT TO COLLECT AND CERTIFY ALL RECEIPTS AND TO SUBMIT THE APPROPRIATE VOUCHERS TO WRITE OFF THE ADVANCE. THESE VOUCHERS WERE SUBMITTED ALONG WITH RECEIPTS AND CLEARLY INDICATED TO WHICH LINE ITFM EXPENSIS WERE CHARGED. VOUCHERS WERE ADMINISTRATIVELY APPROVED BY THE USAID PROJECT OFFICER AND CONTROLLER. THIS SYSTEM DID, IN FACT, ENSURE MISSION MONITORING OF THE ACCOUNT. BECAUSE THE NEW CONTRACT TEAM, DUE TO ARRIVE MAY 31, WILL HAVE A CHIEF OF PARTY, THE PROCEDURES OUTLINED IN OUR LETTER OF DECEMBER 26, 1986 WILL BE STRICTLY ADHERED TO. ADVANCES WILL ALSO BE KEPT TO THE MINIMUM NEEDED CONSISTENT WITH GOOD PROJECT MANAGEMENT.

5. BASED UPON INFO PROVIDED ABOVE, USAID SUDAN RECOMMENDS THAT THE AUDIT RECOMMENDATIONS BE CLOSED.
SMITH UNQUOTE. ANDERSON

BT
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