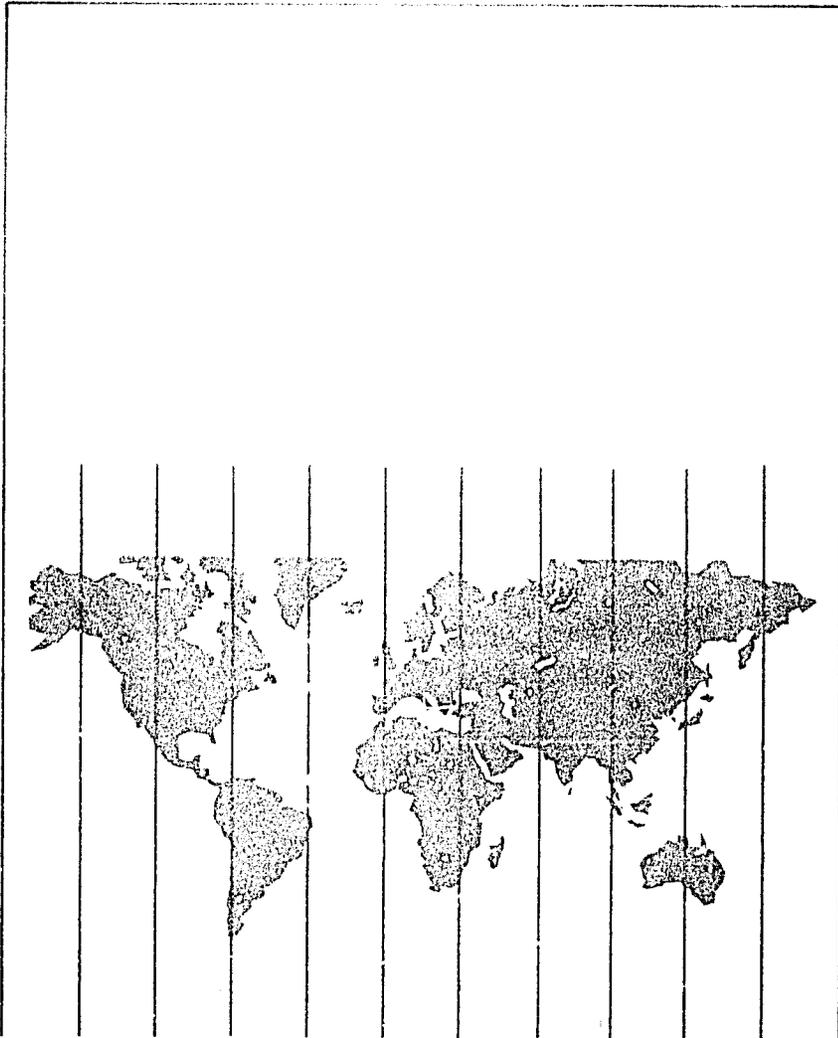


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
NAIROBI

PD-AAA-499

UN-58599

AUDIT OF
USAID/ZAMBIA'S USE OF RETAINED FUNDS
FROM THE AGRICULTURAL TRAINING,
PLANNING AND INSTITUTIONAL DEVELOPMENT
PROJECT NO. 611-0075

AUDIT REPORT NO. 3-611-89-02
November 1, 1988

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

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November 1, 1988

MEMORANDUM FOR DIRECTOR, USAID/Zambia, Leslie A. Dean

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

Richard C. Thabet

SUBJECT: Audit of USAID/Zambia's Use of Retained Funds
from the Agricultural Training, Planning
and Institutional Development Project No. 611-0075

The Office of the Regional Inspector General for Audit/Nairobi has completed its audit of USAID/Zambia's use of retained funds from the Agricultural Training, Planning and Institutional Development project--No. 611-0075. Five copies of the audit report are enclosed for your action.

A draft audit report was submitted to you for comment and your comments are attached to the report. However, recommendation No. 1 was changed after Mission comments to the draft report were received. We cabled the Mission three times and subsequently had two follow-up telephone conversations requesting that the Mission comment on the revision, but the Mission did not respond in any way to our communication. The report contains two recommendations. Recommendation No. 2 is resolved and will not be closed until completion of planned or promised actions. Recommendation No. 1 is unresolved. Please advise me within 30 days of any additional actions taken to implement recommendation No. 2, and further information you might want us to consider on Recommendation No. 1.

I appreciate the co-operation and courtesy extended to my staff during the audit.

Background

On September 26, 1980, USAID/Zambia signed the Zambia Agricultural Training, Planning and Institutional Development project No. 611-0075 grant agreement with the Government of Zambia to assist in (a) identifying human resources constraints, policy and organizational deficiencies, and training requirements in Government of Zambia (GOZ) agricultural institutions, and (b) subsequently improving the GOZ's performance in agricultural planning, analysis and management activities.

1

Funding over the Life of Project totalled \$8.9 million; however, USAID/Zambia deobligated \$1.2 million from this project. Thus, the amount of the grant was revised to \$7.7 million. This project ended June 30, 1987. However, the basic thrust is now being continued under a new project called Zambia's Agricultural Training, Planning and Institutional Development (ZATPID) II.

The majority of the funds (\$4.9 million) were used to finance a Cooperative Agreement with Iowa State University. About \$700,000 was used to finance a Participating Agency Services Agreement (PASA) with the U.S. Department of Commerce, Bureau of Census (BUCEN). The remainder (\$2.1 million) was used to provide necessary project support.

This audit report covers disbursements of about \$1.9 million of the funds retained by USAID/Zambia to support the project. These "retained funds" were managed by USAID/Zambia's Project Support Unit (PSU) from inception of the project to July 1987. The retained funds were used to (a) procure project equipment, vehicles, furniture, appliances, and expendable supplies for the ZATPID project Team; (b) employ local hire personnel for PSU and the ZATPID project; and (c) provide other logistical support to the ZATPID project Team. Approximately \$360,000 of retained funds were used by the Training Office for long and short term participant training.

According to A.I.D.'s Regional Financial Management Center (RFMC) located in Nairobi, Kenya, \$2,036,636 were committed and \$1,934,035 had been disbursed as of June 7, 1988.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Nairobi made a financial and compliance audit of USAID/Zambia's management of the retained funds of the ZATPID Project (No. 611-0075). This audit was undertaken at the request of the Director, USAID/Zambia. Separate reports have been issued covering costs claimed by Iowa State University (A.R. 3-611-88-26) and the PASA with the U.S. Department of Census (A.R. 3-611-88-28). The audit objectives were to evaluate (a) how well USAID/Zambia had utilized the retained funds, (b) the propriety and reasonableness of funds expended by USAID/Zambia, (c) procedures and controls used to manage the retained funds, and (d) the accuracy of the official A.I.D. accounting records for the project.

The audit covered disbursements totaling \$1,934,035 of commitments amounting to \$2,036,636 for the period from September 1980 through June 1988. We reviewed (a) financial

records maintained by RFMC; (b) procedures; internal controls, and filing system used by USAID/Zambia; (c) inventory controls employed by the PSU over project commodities; (d) selected vouchers itemizing payments; and (e) files maintained by the Training Office and PSU in connection with the ZATPID project. Further, we held discussions with USAID/Zambia officials and the former PSU Chief.

The audit was done at USAID/Zambia, Lusaka and RFMC, Nairobi in June and July 1988 in accordance with generally accepted government auditing standards.

Results of Audit

The audit showed that USAID/Zambia used the retained funds well to accomplish project objectives and that expenditures were generally proper and reasonable. However, the PSU did not have adequate procedures and controls over: (a) procurement documentation for technical assistance, commodities and operational recurrent costs; and (b) inventory controls and reconciliations. Further, the RFMC financial reports contained errors, and some commitments shown in these reports were no longer valid.

The audit report recommends that actions be taken to (a) improve the current inventory control system, and (b) correct the errors in the accounting records.

1. Missing Documentation Precluded Reconciling Non-Expendable Inventories - A.I.D. Handbooks 19 and 23 require annual reconciliations of inventories. Physical inventories of Mission controlled non-expendable ZATPID property had not been reconciled to A.I.D. Controller records over the six year life of the project. This was primarily due to incomplete procurement documentation and lack of perpetual inventory records for household furniture. Without a reconciliation, there was no assurance that all non-expendable property purchased with projects funds were accounted for.

Discussion - Handbook 19 and 23 required maintaining adequate records for non-expendable property. Further, verification of the property's existence was to be done annually ensuring it reconciled to the property and accounting records maintained.

However, the audit disclosed that physical inventory verification had never been reconciled to the property and accounting records since the inception of the project. USAID/Zambia officials stated they had recognized their inability to reconcile physical inventories of all A.I.D. procured non-expendable property to Controller records for at least the past two years. Considerable management time was devoted toward this issue -- including using the services of

Summer contract help and a consultant. They eventually concluded a reconciliation was not possible. In December 1987, the USAID/Zambia Executive Officer advised A.I.D. Washington's Directorate for Program and Management Services of this fact; and stated that as a practical and pragmatic approach, USAID Zambia planned to use the October 1987 physical inventory as a starting point for future reconciliations.

The current procedures being used by USAID/Zambia in controlling non-expendable property were in accordance with the procedures prescribed in A.I.D.'s Training Manual for Personal Property Management, with one exception. The exception to these procedures was that their control records of furniture and appliances located in offices and residences did not contain a signed copy of a Furniture/Furnishings Issue/Turn-In Sheet. Without this type of record, the responsible individual would not be held accountable for non-expendable property in his possession.

This situation occurred because procurement documentation was incomplete and that perpetual inventory records for household furniture were non-existent. As a result of this audit, the Mission established revised procedures to ensure procurement documentation will be available for future projects.

Since physical property verification had never been reconciled to the property and accounting records, there was no assurance that all non-expendable property could be accounted for. Mission officials assured auditors that the planned physical inventory will be used as a starting point for future reconciliations.

In conclusion, the Mission should establish and document a property management system to control and reconcile annual physical inventory verification to appropriate records.

Recommendation No. 1

we recommend that the Director, USAID/Zambia submit to Regional Inspector General for Audit, Nairobi:

- a. results of the planned physical inventory verification that reconciles with the property and accounting records; and

- b. the documented property management system the Mission intends to use to control and reconcile A.I.D. financed property to appropriate records.

This recommendation was changed after Mission comments to the draft report were received. The purpose of the change was to direct the recommendation more effectively towards the cause of the problem.

We cabled the revised revision of the recommendation to USAID/Zambia on September 22, 1988 with a request that the Mission comment on the revision. No response was received. We sent follow-up cables on October 4, 1988 and October 13, 1988. Again no response was received. Follow-up telephone calls to the acting Mission Director also failed to prompt a Mission response. Consequently, this recommendation is being issued without Mission comments.

2. Errors in the Accounting Records Should be Corrected to Show the Valid Current Financial Status - Although good financial management practice requires keeping valid and accurate accounting records, the audit disclosed numerous errors in the accounting records. As a result, net adjustments should be made to increase commitments by \$96,808 and disbursements by \$99,375.

Discussion - Good financial management practices require keeping valid and accurate accounting records to show the financial status on a current basis. This enables management to make better and timely decisions when financial information is needed.

The audit disclosed that numerous errors existed in the accounting records. Auditors reviewed a listing obtained from RFMC of all obligations, commitments and disbursements of the project since inception through June 1988. This review disclosed the need for making at least 18 adjusting entries to correct errors in the accounting records.

The precise cause for this situation was difficult to determine, but vouchers were incorrectly coded by USAID/Zambia staff. Further, USAID/Zambia officials stated that some of the commitments/disbursements which validly related to ZATPID II were made on an interim basis without funds availability. At the time of the audit, transfers to correct the entries had not yet been made. Additionally, other errors were caused by RFMC staff who ignored and/or misinterpreted correspondence and miscoded documentation.

Thus, as a result of these errors, the net effect of making 18 correcting adjusting entries is to increase commitments by \$96,808 and disbursements by \$99,375. Detailed analysis of these adjusting entries is shown on Exhibit 1.

In conclusion, USAID/Zambia agreed to make these adjustments to correct RFMC accounting records to show the correct financial status of the project.

Recommendation No. 2

We recommend that USAID/Zambia ensure that adjustments are made to the official A.I.D. accounting records for those items detailed on Exhibit 1.

USAID/Zambia essentially agreed with Recommendation No. 2. The Mission stated that RFMC reports as of August 11, 1988 showed that the commitment for \$12,725 (LE-611-86-0004) has already been reversed and the amendment No. 1 to BUCEN-PASA Agreement recorded as commitment for \$100,000. Further, the Mission stated a telegram is being drafted by the Mission to RFMC to effect the remaining adjustments.

The Office of the Inspector General considers Recommendation No. 2 resolved. It will be closed when the planned or promised actions have been fully implemented.

Other Pertinent Matters - The audit was conducted one year after the Project Assistance Completion Date of June 30, 1987. The audit disclosed that records at Iowa State University, Bureau of Census and USAID/Zambia as compared to RFMC records at June 7, 1988, showed that unrecorded actual and projected disbursements would include:

-- Drawdowns by Iowa State University - voucher Nos. 63 through 67 not yet posted by RFMC -	\$546,041
-- Potential cost of one HHE shipment	15,000
-- Potential cost of one Cannon copier	5,500

After recording all these actual and projected disbursements and adjusting all errors (see Exhibit 1) the ZATPID project financial status would be as follows:

	<u>Obligated</u>	<u>Earmarked</u>	<u>Committed</u>	<u>Disbursed</u>
Technical Assistance:				
ISU			\$4,896,976	\$4,896,976
Bucen PASA			678,450	589,332
Other			81,959	56,757
Total	\$4,601,649	\$5,617,588	\$5,657,385	\$5,543,065
Training	889,109	369,987	362,993	362,993
Commodities	901,417	712,795	572,953	572,495
Oper. Recurring Costs	917,826	993,124	968,563	944,902
Inflation	379,999	-	-	-
Contingency	44,000	-	-	-
Totals	\$7,734,000*	\$7,698,494*	\$7,561,894	\$7,423,455

* No adjustments made at this time to Obligated or Earmarked Funds as recorded by RFMC.

Consequently, about \$310,000 in project funds would no longer be needed. The auditors recommended that the Mission either return the funds to the U.S. Treasury or consider deobligation/re-obligation procedures to ensure effective utilization of funds.

AUDIT OF USAID/ZAMBIA'S USE OF
RETAINED FUNDS FROM THE AGRICULTURAL TRAINING,
PLANNING AND INSTITUTIONAL DEVELOPMENT
PROJECT No. 611-0075

EXHIBIT AND APPENDICES

ZATPID PROJECT 611-0075
CHANGES REQUIRED TO RFMC RECORDS
INCEPTION THROUGH JUNE 7, 1988

Affecting Only ZATPID Project:

	Increase (Decrease) *
ISU Commitments/Disbursements:	
Additional Commitment Required-Final Billing	\$ 46,976 1/
Disbursement for a Lease belongs to Operational Recurrent Costs	(27,975) 3/
BUCEN-PASA Commitments/Disbursements:	
Commitment for LE-611-86-0004 not required.	(12,725) 1/
Commitment required for PASA Amendment No. 1	100,000 1/
Payment to BUCEN in 12/87 (part of \$146,361)	144,738 3/
Retained Funds - Participant Training:	
Reduce Commitment for PIO/P 611-00014	(6,995) 1/
Retained Funds - Commodities:	
PO-845-1880 duplicates radios ordered on PO-86-0014	(4,576) 1/
PO-845-1881 duplicates equipment ordered on PO-86-0050	(830) 1
CO-1327228 - Commitment for 11 Landrovers - no further disbursements anticipated	(14,250) 1/
Commitment required for HIRD vehicle used exclusively for ZATPID	9,394 2/
Retained Funds - Operational Recurrent Costs:	
Lease incorrectly posted to Tech. Asst.	27,975 2/
Commitment required for shipment of HHE	15,000 1/

Commitments/Disbursements Which Benefited Other Projects:

Retained Funds-Operational Recurrent Costs:

LE-85-001-Total Charges	\$67,200	
Value to ZATPID	<u>\$43,200</u>	(24,000) 2/ 4/
PO-611-87-0194: 7 water tanks arrived/ installed after PACD		(15,894) 2/ 4/
Payments to 12 ZATPID drivers after PACD		(12,457) 2/ 4/
Repairs to ZATPID vehicles after PACD		(1,949) 2/ 4/
RQ611-87-0007 - 50 cartons rations received after PACD		(3,361) 1/ 4/ (457) 3/ 4/
PO-86/4055 and 86/4065: each for 1 Cannon copier - 1 for ZATPID, 1 for ZAMARE		(5,500) 1/ 5/

* Increase/(Decrease) to ZATPID Project 611-0075

- 1/ Affects only Commitments
- 2/ Affects Commitments and Disbursements already made
- 3/ Affects only Disbursements already made
- 4/ Benefit to ZATPID II Project 611-0207
- 5/ Benefit to ZAMARE Project 611-0201

EXTRACT OF
USAID/ZAMBIA'S MANAGEMENT COMMENTS
TO DRAFT AUDIT REPORT

AUDIT REPORT ON USAID/ZAMBIA'S USE OF RETAINED FUNDS FROM THE AGRICULTURAL TRAINING, PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT NO. 611-0075

A. RECOMMENDATION NO. 1

RECOMMENDATION NO. 1 WAS REVISED AS INDICATED ON PAGE 5. AT THE TIME OF REPORT ISSUANCE, USAID/ZAMBIA HAD NOT SENT ITS COMMENTS. SEE PAGE 5 UNDER MISSION COMMENTS.

B. RECOMMENDATION NO. 2

(1) RFMC REPORTS AS OF 8-11-88 SHOWED THAT THE COMMITMENT FOR DOLS 12,725 (LE-611-86-0004) HAS ALREADY BEEN REVERSED AND THE AMENDMENT NO. 1 TO BUCEN PASA AGREEMENT RECORDED AS COMMITMENT FOR DOLS 100,000.

(2) A TELEGRAM IS BEING DRAFIED BY THE MISSION TO RFMC TO EFFECT THE REMAINING ADJUSTMENTS PER AUDIT REPORT RECOMMENDATION ON THE USE OF RETAINED FUNDS. RIG/A/N WILL BE PROVIDED A COPY OF THIS CABLE.

(3) RFMC IS CURRENTLY LOOKING AT THE FINAL ISU BILLING FOR \$46,976 AND WILL ADVISE THE MISSION ONCE A DECISION HAS BEEN REACHED ON THE ACTION TO BY TAKEN. MISSION WILL ADVISE RIG/A/N, ACCOPDINGLY.

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