PDAAY-717

ISN 59239

AUDIT OF FUNDS PROVIDED FOR
PROGRAM DEVELOPMENT AND SUPPORT
PROJECT NOS. 931-0262, 931-1096
932-0502 and 936-1406

AUDIT REPORT NO. 9-000-89-003

OCTOBER 21, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

October 21, 1988

MEMORANDUM FOR SAA/S&T, Nyle C. Brady

FROM: IG/PSA, Melvin F. Boyer, Jr.

SUBJECT: Audit of Funds Provided for Program Development and Support, Project Nos. 931-0262, 931-1096, 932-0502 and 936-1406

This report presents the results of an audit of funds provided for program development and support (PD&S). This audit is part of a series of PD&S audits worldwide. A summary report that addresses broader issues than those identified by the individual reports will be subsequently developed. Five copies of the report are attached for your action.

A draft report was provided to you for your comments which are attached as Appendix 1. The report contains one recommendation which is considered resolved and will be closed when we are notified that the actions planned have been taken. Please provide, within 30 days, the actions taken to implement the recommendation.

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

Background

A.I.D. guidance on use of PD&S funds is defined in Handbook 18, Section III, Appendix D, as those activities whose purpose is the identification, design, and evaluation of programs, projects, or activities that cannot be easily or appropriately charged to the individual project activity.

PD&S funds represent an allocation of development assistance appropriations to the bureaus by the Bureau for Program and Policy Coordination. Each bureau is responsible for establishment of policy and management of its PD&S funds, as

well as maintaining accountability over availability and use of funds. This funding is provided to conduct feasibility and development activities chargeable to one of eight A.I.D. purpose categories, such as Food Supply, Rural Development, or Nutrition. Additionally, they can be used to fund program evaluations, sector assessments and other special studies.

The Bureau for Science and Technology (S&T) had four projects with PD&S funding in FY 1987. They were titled: Population Program Development Support, Program Development and Support, Nutrition Scientific/Technology/Planning support, and Field Services and Program Development. S&T was the first bureau to recognize the need for and to issue guidance which establishes policies for approval and use of PD&S funds. Bureau defined uses of PD&S funds include design of projects, exploratory research, surveys, refinement of proposals, and various types of evaluations. The PD&S program is controlled by the Senior Assistant Administrator.

Based on information received from S&T and the FY 1989 Congressional Presentation, funding for S&T's PD&S activities was as follows:

	Fiscal Year 1987 Obligations (000)	Fiscal Year 1988 Estimate (000)
Population Program Development Support (932-0502)	$1,874	$2,404
Program Development and Support (936-1406)	1,685	1,588
Nutrition: Scientific/Technology/ Planning Support (931-0262)	972	600
Field Services and Program Development (931-1096)	33	-
	$4,564	$4,592

Audit Objectives and Scope

The Inspector General's Office of Programs and Systems Audits made an audit of PD&S funds provided to S&T. The audit objectives were to determine the appropriateness of the use of PD&S funds and to evaluate the effectiveness of administrative and accounting controls in place in S&T.

The review was limited to obligations incurred during fiscal year 1987. Of the $4.6 million of fiscal year 1987 PD&S obligations, we reviewed eight obligations totalling $.8 million. The review of compliance and internal controls was limited to the findings in this report.

Audit work was conducted from April 1988 to July 1988 and included interviews with Bureau officials, review of A.I.D. and S&T guidance, obligating documents, reports, financial records and correspondence. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

Using the guidance in Handbook 18, the audit showed that the Bureau had, on occasion, inappropriately used PD&S funds by not complying with Agency guidance. The Bureau used PD&S funds to incrementally fund on-going projects, and did not adequately monitor the status of obligations on certain activities.

1. On-going Project Funding was Augmented by PD&S Funds - S&T's Program office has added PD&S funding to two existing projects with little change in the projects' scope of activity. Handbook 18 guidance indicates PD&S funds should not be used when activities can be easily charged to an existing project. The potential to misuse PD&S funds exists because clear guidance has not been developed. As a result, PD&S funds have been used for purposes not intended.

Discussion - A.I.D. Handbook 18 states that the intended use of PD&S funds is for the identification, design, and evaluation of programs or projects/activities where such activities cannot be easily or appropriately charged to the individual project activity.

The Bureau funded two activities that were not based on the above criteria because funds were provided to incrementally fund on-going projects. In one instance, PD&S funding was added to an on-going research projects. In this case, the Bureau had an existing agreement with the Department of Agriculture's Cooperative State Research Service to expedite research at International Agricultural Research Centers. This effort was being funded under A.I.D. project No. 936-4136, Special Constraint Research.

In the second instance S&T provided incremental funding of $140,000 to the International Fertilizer Development Center, project No. 931-0051. This funding was to develop a specific model for a nitrogen component for rice when funds had routinely been provided for general model development under the project.

While we are not making a specific recommendation, it is incumbent on S&T management to effectively monitor use of PD&S funds to ensure that the intent of Agency guidance is followed and to avoid supplemental/incremental funding of on-going projects.

The Bureau believes that the activities cited in the report were within the scope of Bureau guidance. The Bureau also disagreed with the report's contention that the Agency had guidance regarding the use of PD&S funding, indicating that Handbook 18 reference to PD&S was both vague and casual and, therefore, was not guidance per se.

IG/PSA believes that, while lacking specificity, nonetheless, Handbook 18 clearly demonstrates the Agency's intent that PD&S funds were not to be used to augment Congressionally approved levels of funding set for specific projects already identified and designed with stated purposes.

While IG/PSA agrees with the Bureau that the activities cited in the report may not be outside what is permissible by S&T standards, the use of PD&S funding was beyond the intent of current Agency criteria. The issue of lack of adequate agency guidance will be dealt with in our summary report based on the series of worldwide audits.

2. Monitoring of Status of Obligations Should Be Formalized - A.I.D. Handbook 3 states that funds no longer needed will be deobligated by the appropriate Controller in coordination with the project offices. S&T in fiscal year 1987 entered into seven Indefinite Quantity Contracts (IQCs) using $70,000 ($10,000 each) from PD&S funds as consideration until a delivery order for at least the minimum amount was contracted (guaranteed). S&T had no systematic review process to remove the funds once the minimum order was placed. As a result, $50,000 was left in the IQCs when the funds could have been deobligated and more effectively used for other purposes.

Discussion - Handbook 3, chapter 13D8 states that whenever it is certain that the funds authorized and obligated for the life of a project exceed the amount actually required, steps should be taken to deobligate the excess amount.

In the case of an S&T's IQC, $10,000 guarantees are required to minimally fund the contracts. The guarantees are being provided from PD&S. After an initial work order is issued which exceeds the $10,000 guarantee, the funds obligated from PD&S are no longer needed and should be deobligated.

The audit showed that S&T had not always reviewed the status of IQC's for the purpose of deobligating the guaranteed amounts no longer needed. As a result, the opportunity to use these funds on other activities was lost. The audit showed that as of June 1988, $50,000 of FY 1987 obligations should have been deobligated for periods ranging from 9 months to 12 months.

Recommendation 1

We recommend that the Senior Assistant Administrator for Science and Technology formalize procedures to periodically review program development and support funds provided to initiate Indefinite Quantity Contracts to ensure deobligation of these funds when appropriate.

The Bureau has drafted procedures for reviewing and recovering guarantees from new IQCs. These guidelines should satisfy the need for reviewing and deobligating the guarantees. When the guidelines are formalized and evidence is provided to the IG that the procedures have been implemented, the recommendation will be closed.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

SENIOR ASSISTANT ADMINISTRATOR

SEP 6 1988

MEMORANDUM

TO: IG/PSA, Mervin F. Boyer

FROM: S&T, N. C. Brady

SUBJECT: Draft Inspector General Report, Audit of Funds Provided for Program Development and Support (PD&S) Project

The Bureau for Science and Technology appreciates the opportunity to respond to the subject draft audit report. We also note that the report reflects some of the comments offered previously by S&T staff.

The draft audit report addresses two separate issues, S&T's adherence to Agency and Bureau guidance in respect to PD&S and PD&S-like activities and review of Indefinite Quantity Contracts (IQC). One specific recommendation is offered.

Adherence to Bureau and Agency Guidance

The report cites as "Agency policy" a vague 1979 reference to PD&S contained within an appendix to HB 18 dealing with Agency codes and numbering systems. This passage is not a policy statement but, rather, a very general characterization of a purpose code for project classification (a system which, incidently, has fallen into disuse). The fact that this casual reference is the only reference to PD&S in the entire handbook series demonstrates that there is, in fact, no clear Agency policy statement on PD&S. In this context, we disagree with the contention that S&T has not complied with Agency guidance since no guidance exists.

We also disagree with the contention that activities cited in the audit report are outside of the scope of Bureau guidance. Although similar in some respects, the S&T Small Activity project is not PD&S per se but a separate type of activity which is defined by Bureau guidance.

The S&T guidance clearly implies that small activities can and in many cases should be closely related to ongoing activities -- the idea being to follow-up on success. S&T projects tend to be longer-term, broadly defined activities which are funded annually, based on anticipated requirements. The decision to transfer funding to a given project structure or to retain the funding under Small Activities is usually a point of form rather than substance based on a technical judgement call as to what is or isn't properly chargeable to a given project. In general, we agree that, where appropriate, activities should be charged to applicable projects rather than retained within the Small Activity project.

Indefinite Quantity Contracts

The audit report listed one recommendation which was based on the findings that S&T had not always reviewed the status of IQCs for the purpose of deobligating funds.

Recommendation No. 1: We recommend that the Senior Assistant Administrator for Science and Technology formally establish periodic reviews of program development and support funds provided to initiate Indefinite Quantity Contracts and ensure the deobligation of funds when appropriate.

Bureau Response: As noted in the audit report, the Bureau drafted written procedures for review of IQC balances and for the recovery of guarantee funds from new IQCs. These guidelines will be formalized as Bureau guidance, and distributed to the appropriate offices within the next 60 days. Copies will be sent to the IG Office. As well, we will complete a review of all IQC balances, including guarantees, within 30 days. We presume these actions will satisfy the audit recommendation.

APPENDIX 2

REPORT DISTRIBUTION

	No. of Copies
Senior Assistant Administrator, Bureau for Science and Technology (SAA/S&T)	5
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