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**Audit of The  
South Pacific Region  
Agricultural Development  
Project No. 879-0267**

**Audit Report No. 2-879-91-03  
December 19, 1990**

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**USAID/Suva should take action to ensure that  
progress in achieving project objectives is  
sustained after A.I.D. assistance ends.**

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

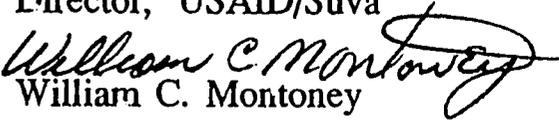
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c/o AMERICAN EMBASSY  
MANILA, PHILIPPINES

Date: December 19, 1990

MEMORANDUM

TO: Mr. John B. Woods  
Director, USAID/Suva

FROM:   
William C. Montoney  
Regional Inspector General

SUBJECT: Audit of the South Pacific Region Agricultural  
Development Project No. 879-0267  
Audit Report No. 2-879-91-03

The Office of the Regional Inspector General for Audit/Manila has completed its Audit of the South Pacific Region Agricultural Development Project. Five copies of the audit report are provided for your action.

The draft report was submitted to you for comment and your comments are attached to the report. The report contains four recommendations; these recommendations are unresolved pending agreement on a responsive plan of action.

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

## EXECUTIVE SUMMARY

Initiated in September 1980, the goal of the South Pacific Region Agricultural Development Project is to further the social and economic development of rural residents of eleven South Pacific nations. The project seeks to achieve this goal through a \$13 million A.I.D. grant to the University of the South Pacific's regional School of Agriculture and in-kind contributions by the University of \$10 million. The project builds the School's capacity to teach skills needed by local residents for increased agricultural productivity by strengthening the School's academic programs, faculty and staff, research capability and library. The project also seeks to establish an outreach and extension service at the School to test, perfect and disseminate practical agricultural technologies, in cooperation with governments of the eleven nations.

Audit work, which covered the period from the project's inception on September 16, 1980, through April 30, 1990, determined that

- although progress has been made in achieving the project objectives, a strategy for the gradual withdrawal of A.I.D. funding of project activities is needed to ensure that the progress is sustained,
- a system to track in-kind contributions made by the University of the South Pacific to project activities should be implemented and
- accounting and control procedures over project funds should be strengthened to ensure accountability

This report contains four recommendations. USAID/Suva has initiated action

which is partially responsive to two of them. The four recommendations are unresolved pending agreement on a responsive plan of action.

*Office of the Inspector General*

Office of the Inspector General

December 19, 1990

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# INTRODUCTION

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## Background

The goal of the South Pacific Region Agricultural Development Project is to further the social and economic development of rural residents of eleven South Pacific nations--Cook Islands, Fiji, Kiribati, Nauru, Niue, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu and Western Samoa. Initiated in September 1980, the project seeks to achieve this goal by building the capacity of the regional School of Agriculture of the University of the South Pacific to teach skills needed by local residents for increased agricultural productivity. Through a \$13 million grant to the School, USAID/Suva expects to strengthen the School's academic programs, faculty and staff, research capability and library. The project also seeks to establish an outreach and extension service at the School to test, perfect and disseminate practical agricultural technologies in cooperation with governments of the eleven nations.

Project inputs include technical assistance (provided through an AID-direct contract with the University of Hawaii and its subcontractor, Cornell University), training, construction and commodities. As of April 30, 1990, about \$12 million in A.I.D. funds had been obligated--about \$7 million for the University of Hawaii contract and about \$5 million for the School. A.I.D. disbursements were about \$7.4 million. The University of the South Pacific agreed to provide in-kind contributions totaling \$10 million over the life of the project.

USAID/Suva initially planned to implement the project in three phases, each emphasizing the institutional development of the School. These plans were changed in May 1990, after completion of phase one of the project and near completion of phase two. Reflecting a change in A.I.D.'s development strategy, which has shifted from funding government activities to supporting

the private sector, USAID officials decided not to fund a third phase. This decision was made shortly after a project evaluation, completed in February 1990, recommended approval of a third phase. USAID/Suva has since made plans to provide a new grant to the School to support the development of private sector agriculture in the region. USAID officials also plan to request an extension of the December 1991 project completion date by two years. This would allow participants to complete their training programs.

The School of Agriculture is one of four schools composing the University of the South Pacific, an institution of higher learning serving eleven South Pacific nations. Two components make up the School of Agriculture. The teaching component offers academic programs in agriculture leading to diplomas, bachelors and masters degrees and advanced certificates in teaching. The research component is The Institute for Research, Extension and Training in Agriculture which sponsors and conducts agricultural research and disseminates the results.

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## Audit Objectives

The Office of the Regional Inspector General for Audit/Manila reviewed the South Pacific Region Agricultural Development Project to answer the following audit objectives:

1. Has the project made sustainable progress towards achieving its objectives?
2. Is the University of the South Pacific making its counterpart contribution to project activities?
3. Are procedures adequate to ensure accountability of project funds?

In answering these audit objectives, we tested whether USAID/Suva (1) followed applicable internal control procedures and (2) complied with certain provisions of laws, regulations, contracts and the grant. Our tests were

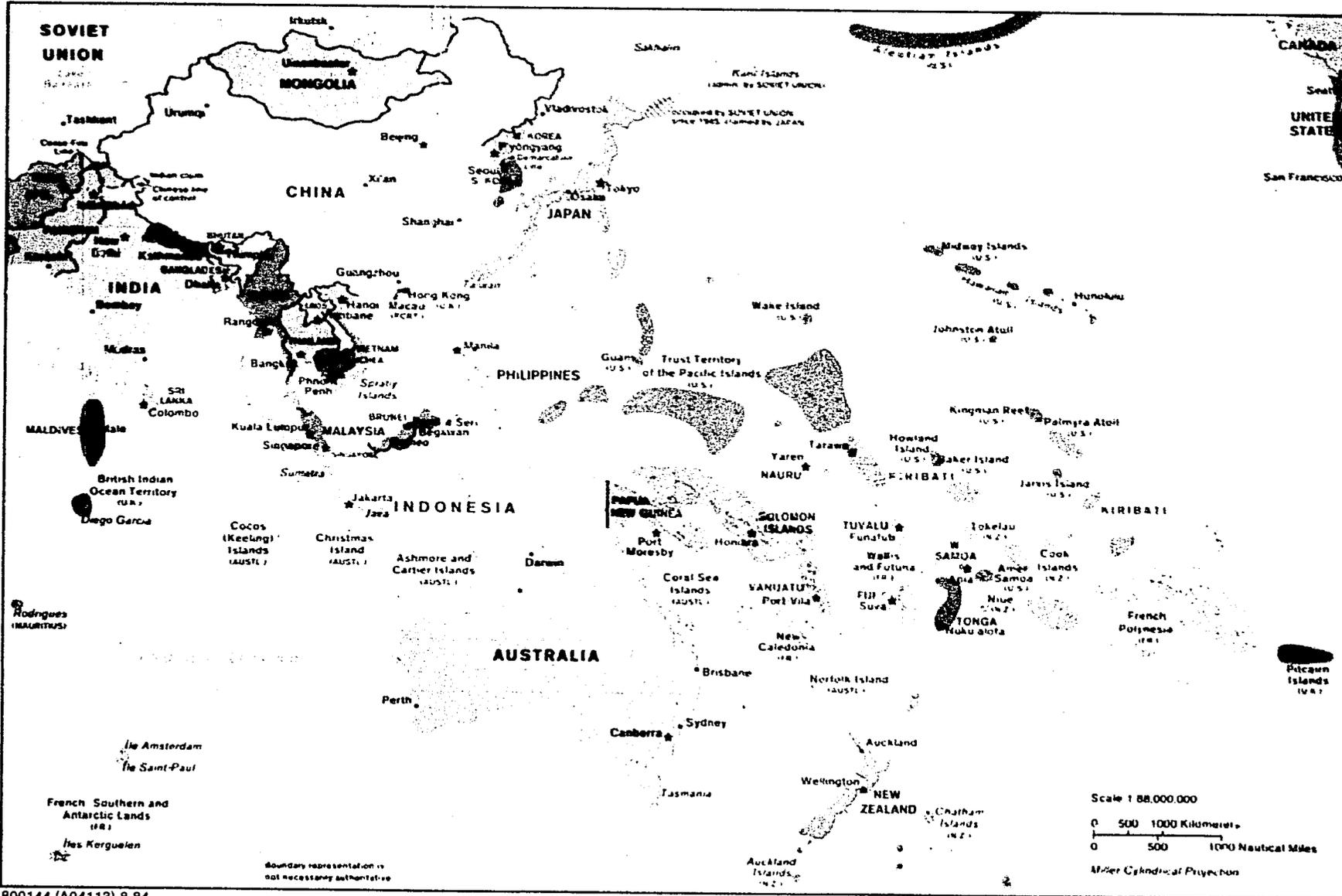
sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Suva or the University of the South Pacific followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work

- to conclusively determine that USAID/Suva or the University of the South Pacific was not following a procedure or not complying with a legal requirement,
- to identify the cause and effect of the problems and
- to make recommendations to correct the condition and cause of the problems.

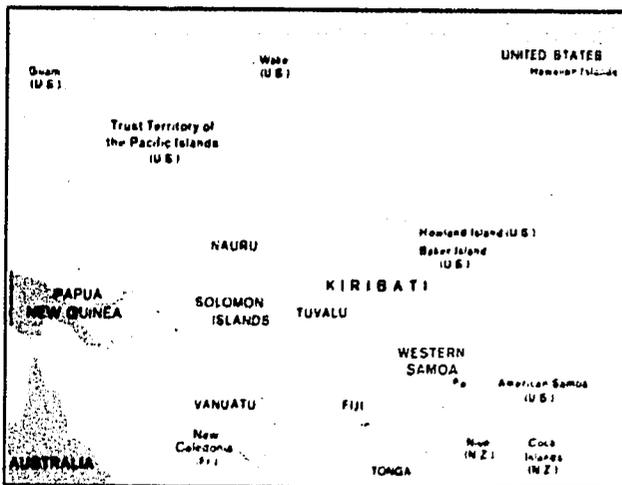
Appendix I contains a complete discussion of the scope and methodology for this audit.

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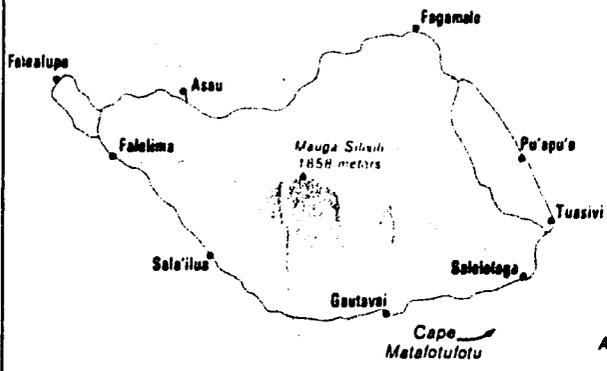
# East Asia and Oceania



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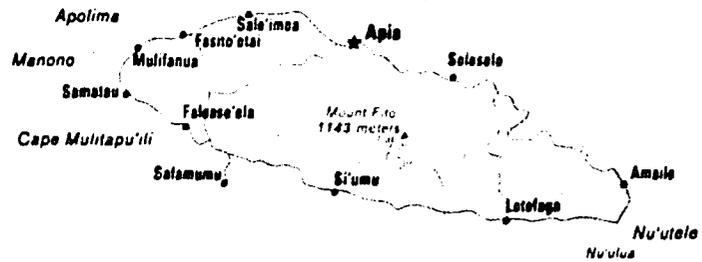


**Savai'i**



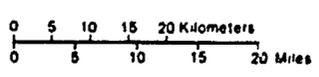
**SOUTH PACIFIC OCEAN**

**Upolu**



**Western Samoa**

- ★ National capital
- Road



# REPORT OF AUDIT FINDINGS

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**Has the project made sustainable progress towards achieving its objectives?**

The project has made progress in strengthening the academic, research and extension capabilities of the University of the South Pacific's School of Agriculture. However, unless alternative funding sources are obtained, this progress may not be sustained after A.I.D. financial support for the School ends.

## **Progress Has Been Made in Achieving Project Objectives**

The project has made the following contributions to building the School's academic program:

- A program to prepare teachers of agriculture for secondary schools in the South Pacific region was designed and implemented. The program has awarded 89 Advanced Certificates in Teaching Agriculture since its inception in 1982.
- Six of 13 participants who completed advanced degrees in the United States were members of the School's faculty. Four were officials of governments in the region. The other three were assistants in the School's research program.
- Consultants sponsored by the project, 22 long-term and 30 short-term, taught classes and assisted in the design and implementation of courses, curricula and research activities.

- The School's library was improved by training staff, providing books and technical journals and establishing computer linkages with library data bases in the region.
- Four vehicles were provided, six houses were constructed and three research facilities were built or improved.

The project has strengthened the research capacity of the School by supporting the Institute for Research, Extension and Training in Agriculture and its research program. Since the project's inception, the Institute has developed new breeds of taro, tomato and sweet potato which are resistant to certain plant diseases prevalent within the region. These new breeds, disseminated to farmers in Tonga and Western Samoa by the countries' ministries of agriculture, have improved the reputation of the School and have attracted research grants from other donors.

The project has assisted the School in establishing the following agricultural extension network:

- Agricultural liaison officers are now the primary channels of communication between the School and the ministries of agriculture for the eleven nations in the region. They relay information requests and responses between the ministries and the School and coordinate project-sponsored workshops and seminars for ministry personnel.
- Extension-related seminars and workshops have been sponsored, agricultural journals and pamphlets have been published and radio and television programs on extension-related topics have been produced.

## **Project Activities May Not Continue After A.I.D. Assistance Ends**

Although the project has made progress in achieving its objectives, this progress may not be sustained. Contrary to Agency policy, the benefits of project activities may not continue after A.I.D. funding ends because a budget for the University of the South Pacific's School of Agriculture based on financial commitments from sources other than A.I.D. and a strategy for phasing out A.I.D. financial support for the School has not been developed. As a result, maximum benefit from the \$13 million in A.I.D. funds committed to the School may not be achieved.

**Recommendation No. 1:** We recommend that USAID/Suva, in cooperation with the University of the South Pacific's School of Agriculture, develop a strategy for phasing out A.I.D. support for the School's academic, research, and extension activities funded under the South Pacific Region Agricultural Development Project. The strategy should include plans for

- prioritizing academic, research and extension activities for funding based on their success in achieving project objectives,
- identifying alternative funding sources,
- preparing a budget for the School to support priority activities based on commitments from alternative funding sources,
- establishing schedules for replacing A.I.D. funding with funds from alternative sources and
- determining whether a limited extension of A.I.D. funding is warranted to ensure that successful activities continue during the transition to alternative sources.

According to the Agency's Policy on Recurrent Cost, the ultimate objective of A.I.D. assistance is for each project to move from dependence on A.I.D. funding to permanent financial independence. Accordingly, projects should include plans for ensuring that this objective is achieved. Likewise, A.I.D. Handbook 3, Section 14A, paragraph 2c defines a successful project as one which continues to generate benefits after A.I.D. involvement ends. Critical to achieving this success are financial arrangements to replace A.I.D. funds in support of project activities.

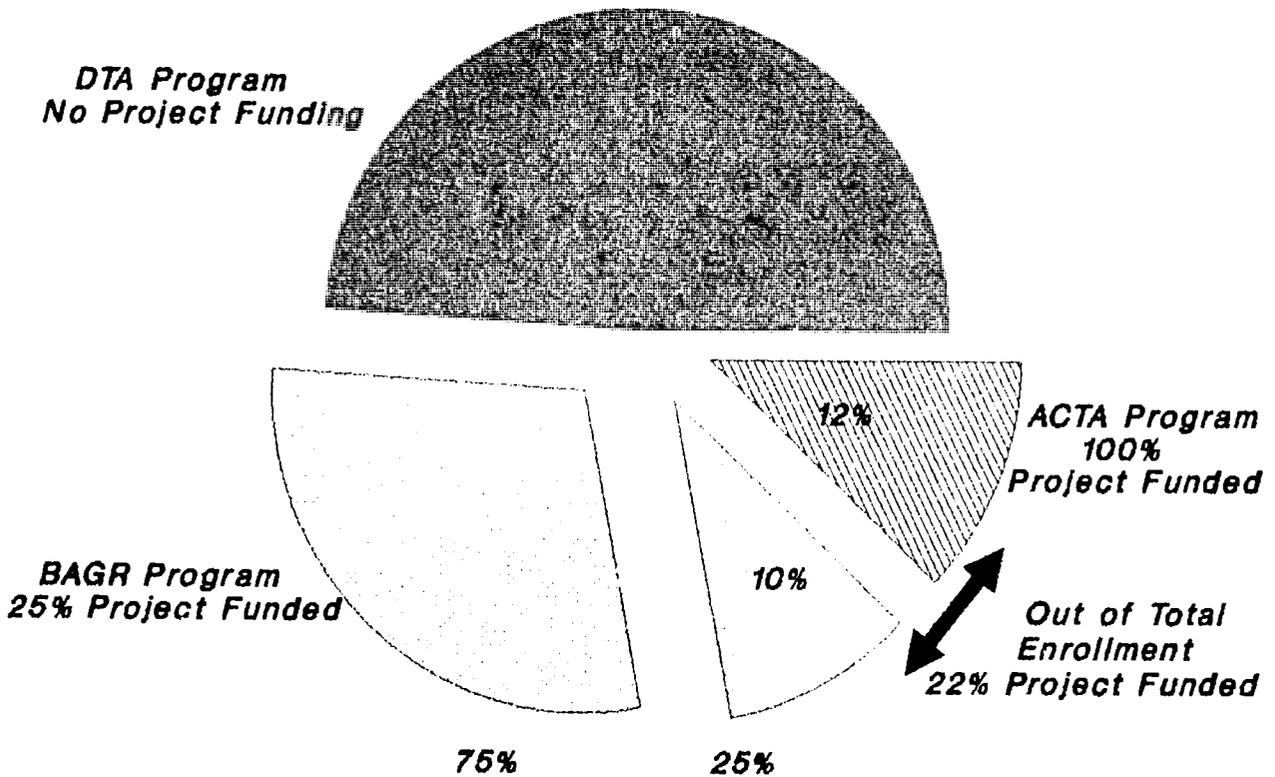
### The School's Academic, Research and Extension Activities Are Dependent on Project Funds

The School's academic and research programs are heavily supported by the project.

- Fifty percent of the financial support for the School's operating budget for calendar year 1990--\$600,000 of \$1.2 million--comes from the project.
- The project funds 21, or 62 percent, of the 34 positions in the School's research institute. These positions include 16 research assistants and 5 technical assistants.
- The 14 research grants made by the research institute, totaling \$65,000, were funded by the project. These grants resulted in the development of new breeds of taro, sweet potato and tomato that are being disseminated within the region.

As the chart below shows, a significant portion of the School's student enrollment since 1985 has studied under project-funded scholarships.

# Percentage of School Enrollment on Project Scholarship 1985 To 1990



**DTA - Diploma Program**  
**BAGR - Bachelors Degree Program**  
**ACTA - Advanced Certificate in Teaching Agriculture Program**

The School's enrollment over the six-year period 1985 through 1990 totaled 731 students. As shown in the chart, about 22 percent of the total enrollment over the period, or 155 students, studied under project-funded scholarships. This percentage was even higher for students in the bachelors degree and advanced certificate in teaching agriculture programs. Total enrollment of bachelors degree students over the six-year period was 289. Project funds supported about 25 percent, or 73, of these students. For the advanced certificate in teaching agriculture program, 100 percent of the 82 students enrolled during the six-year period were studying under project scholarships.

The School's agricultural extension program is reliant on project funds. Salaries for eight of the nine extension agents assigned to ministries of agriculture within the region are funded by the project. These agents, who serve as two-way communication links between the ministries and the School, are critical to the success of the extension program. In addition, the project pays salaries for a technician, who operates the radio/satellite communications system linking the extension agents and the School, and a library information specialist, who responds to information requests coming from the ministries. Furthermore, the project funds the publication of technical journals and pamphlets and the production of extension-related radio and television programs. During calendar year 1990, the School budgeted about \$130,000 for these activities.

### **A Strategy for Withdrawal of A.I.D. Funds Is Needed**

School and USAID officials agree that the sudden loss of project funds would have a detrimental impact on the School and its programs. To ensure that the progress made by the project is sustained, a strategy for phasing out A.I.D. participation should be prepared. In fact, a recent project evaluation recommended a phased withdrawal of A.I.D. support and suggested that such a withdrawal could not be accomplished successfully before the scheduled termination of the project in December 1991. However, a strategy, including a budget for the School to support successful project activities, based on

funding commitments from sources other than A.I.D. has not been developed.

School officials have not prepared a strategy because they were anticipating a third phase of the project funded by A.I.D. at a level at least equal to the levels of phases I and II, about \$6 million and \$7 million, respectively. However, reflecting the shift in the Agency's development strategy, USAID/Suva decided in early 1990 not to fund a third phase. Likewise, USAID officials have not prepared a withdrawal strategy. They believe the responsibility for developing such a strategy belongs to School officials.

Although the project has made progress in achieving its objectives, this progress may not be sustained after A.I.D. assistance ends. As demonstrated above, the academic, research and extension programs of the School are financially dependent on A.I.D. funds. Therefore, to ensure continuation of successful project activities, a strategy for substituting A.I.D. funds with funds from alternative sources should be developed. Such a strategy should be a collaborative effort between USAID/Suva and the School. Only through a planned and gradual withdrawal can A.I.D. maximize the benefits achieved from the \$13 million A.I.D. grant to the School.

### Management Comments and Our Evaluation

USAID/Suva commented that its support for the School will not be terminated after completion of the project's second phase. Rather, there will be a change in its approach to support for the School. Management plans to provide a grant to the School to develop commercial agriculture in the South Pacific under a new private sector agricultural development project to begin in fiscal year 1991. In addition, USAID officials plan to request a two-year extension of the current project to allow participants in training to complete their programs. The remaining project funds, approximately \$250,000, will be used for this purpose. Because of the length of the project, the request will require approval by the A.I.D. Administrator.

USAID officials have conducted negotiations with other donors for support of the School. These include the European Economic Community, the Asian

Development Bank and the Commonwealth Fund. In addition, the University of the South Pacific increased support for the School by \$150,000 in 1990.

The USAID plan of action is partially responsive to Recommendation No. 1. The proposed grant to the School, the two-year extension and negotiations with other donors should improve the sustainability of the project. However, the size of the proposed grant has not been identified, how it will be used has not been determined and the timing of other donor funding commitments is unknown. As discussed in the body of the report, the School is financially dependent on the project--A.I.D. supports 50 percent of the operating budget, 22 percent of the student enrollment and 62 percent of research salaries. Therefore, to ensure the continuation of project activities, a systematic plan for phasing out A.I.D. support and replacing it with funding from alternative sources is necessary. Accordingly, Recommendation No. 1 is unresolved pending agreement on a responsive plan of action.

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**Is the University of the South Pacific making its counterpart contribution to project activities?**

USAID/Suva can not determine whether the University of the South Pacific is meeting its commitment to contribute \$10 million to project activities because neither USAID/Suva nor the University tracks the University's cash and in-kind contributions to project activities.

**Recommendation No. 2: We recommend that USAID/Suva take action to ensure that the University of the South Pacific's commitment of \$10 million to project activities is met; such action should include**

- **implementing a system for tracking cash and in-kind contributions made by the University and**
- **determining the value of past cash and in-kind contributions to the project.**

The A.I.D. Policy on Recurrent Costs emphasizes the importance of the counterpart contribution as a means of ensuring the continuation of project activities after A.I.D. funding ends by giving the grantee a vested interest in the project's success. Under provisions of the grant agreement, the University agreed to provide primarily in-kind contributions--including staff time, use of facilities and office space--totaling about \$10 million, or 42 percent of the \$23.7 million life-of-project funding.

Information on the size of the University's contribution to the project is not available because a system for tracking University inputs has not been implemented. Because of staff limitations and the difficulties inherent in assessing the value of in-kind inputs, the USAID Controller's Office has not tracked University cash and in-kind contributions to the project. In addition, the University does not track its contributions to project activities. Although the University prepares an annual operating budget for the School, the budget does not segregate the costs of university inputs that support project activities. Furthermore, a system for tracking in-kind inputs such as faculty time, office and classroom space and maintenance has not been implemented by the School. As a result, USAID officials can not be sure that the University is meeting its commitment to provide at least \$10 million to support the project.

### Management Comments and Our Evaluation

USAID/Suva commented that the project is an institutional development program designed to support the School of Agriculture. As a result, project activities are integrated into School programs. Therefore, it is impractical to develop a separate tracking system for the University's in-kind inputs to the project.

Management agrees, however, that as a grantee the University should have a vested interest in the project. They believe that the University has demonstrated its commitment through continuing support for the School of Agriculture. The number of staff positions in the School has increased from 16 in 1980 to 26.5 in 1991. During the same period, the University's annual

budget support for the School has increased from \$253,000 to over \$1.67 million. Total amounts budgeted by the University for the School were approximately \$11.6 million over the period.

We believe that a system for tracking contributions made by the University to project activities is necessary. The figures cited by management do not necessarily demonstrate a University commitment to the project or to the School of Agriculture because of the way in which A.I.D. funds are provided to the School. Neither the budget for the University nor for the School contains separate line items for A.I.D. funds. A.I.D. funds are passed through the University to the School of Agriculture, on a quarterly basis, to reimburse project-related expenses. As a result, amounts budgeted by the University for the School may include A.I.D. reimbursements. Therefore, citing these amounts as evidence of the University's financial commitment is misleading. Until a satisfactory plan of action for tracking the University contribution is agreed to, Recommendation No. 2 will remain unresolved.

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**Are procedures adequate to ensure accountability of project funds?**

For the items tested, accounting and control procedures for project funds do not ensure accountability. Audit work found that

- financial reports related to project activities were inaccurate and unreliable,
- some disbursements were not project related,
- disbursements of project funds were made without adequate verification of expenses and
- long delays occurred between the time expenses were incurred by the University of the South Pacific and were submitted to USAID/Suva for reimbursement.

In 1987 the Regional Inspector General for Audit/Manila conducted a financial audit, under its nonfederal audit program, of project-related expenses incurred by the University of the South Pacific and reimbursed by A.I.D. between March 17, 1980, and October 1, 1985. Audit report number 2-879-88-03-N (titled Audit of the South Pacific Agricultural Development Project and dated November 27, 1987) questioned \$21,848 and recommended disallowance of \$2,460. Subsequent documentation provided by the University supported most of the questioned expenses and the University reimbursed A.I.D. for those costs that were disallowed. The report also noted delays in submission of expenses by the University to A.I.D. for reimbursement and inadequate review of expenses by USAID/Suva.

### **Accounting and Control Procedures Should Be Improved**

Responsibility for accounting and control of project funds was transferred on October 1, 1989, from USAID/Philippines to USAID/Suva. Since the transfer, USAID/Suva has not assessed the adequacy of accounting and control procedures that are in place. As a result, USAID officials can not be sure that project funds are being efficiently and effectively used to achieve project objectives.

**Recommendation No. 3: We recommend that USAID/Suva assess and strengthen as necessary accounting and control procedures over funds provided under the South Pacific Region Agricultural Development Project; the assessment should address the**

- accuracy and reliability of financial reports related to project activities,
- adequacy of verification procedures for expenses submitted to USAID/Suva for reimbursement and
- reliability of procedures followed by the University of the South Pacific in accounting for project-related expenses.

**Recommendation No. 4:** We recommend that USAID/Suva review disbursements made under the South Pacific Region Agricultural Development Project to the University of the South Pacific since October 1985 and to the University of Hawaii since the beginning of the project to ensure that disbursements were made only for eligible project-related expenses and take action to recover any unreimbursable costs.

According to Chapter 1 of A.I.D. Handbook 19, a reliable accounting system is necessary to ensure efficient and effective Agency operations and accountability of funds. Reliable financial data is a key element of such a system. In addition, Agency Payment Verification Policy Guidance, dated December 30, 1983, requires that USAID missions conduct annual assessments of voucher approval and examination procedures to identify areas of vulnerability.

**Financial Reports Were Inaccurate and  
Some Disbursements Were Not Project-Related**

We reviewed financial reports produced by the Mission Accounting and Control System to determine whether they were effective financial management tools. Our review showed that the reports were inaccurate and unreliable. For example one report, the Summary Financial Report by Element, dated April 30, 1990, presented the financial status of each project element, in terms of obligations, earmarks, commitments and expenditures. In order to be an effective tool for managers, project elements used in the report should correspond to line items in the project budget.

As the table below shows, we found little correlation between the report's project elements and the budget line items.

**Comparison of Project Budget Line Items to  
the Summary Project Financial Report by Element**

<b><u>Line Items from the Project Budget</u></b>	<b><u>Project Elements from the Financial Report</u></b>
1. Construction	1. Construction
2. Technical Assistance	2. Collaborative Assistance
3. U.S. Contractor Support	3. South Pacific Island Agriculture Development
4. Training	4. South Pacific Regional Agriculture Development
5. Outreach Services	5. University of the South Pacific
6. Supplies and Equipment	6. University of the South Pacific
7. Overhead	7. University of Hawaii
	8. University of the South Pacific
	9. USP/Grant
	10. Partial AID/W Project Funding

"Construction" is the only line item that appears both in the report and the project budget. Furthermore, although the report uses the project element "University of the South Pacific" three times, it does not explain the differences between the elements. In addition, the report uses an element "Partial AID/W Project Funding" with no explanation. The USAID Controller did not know what expenditures were included in this element.

Another report, the Commitment Liquidation Record, provides a chronological record of the project's commitments, disbursements and accruals and the total advances outstanding against each commitment. Our review of the report, dated May 14, 1990, showed that some disbursements were temporarily charged to the project. We judgmentally selected from the report

nine disbursements which did not appear to be project related. According to the report, four of the nine disbursements were for replenishment of petty cash. The other five disbursements were for education expenses, purchase of a computer and accessories and transportation costs for a contractor. A review of the vouchers for the four petty cash replenishments, totaling about \$13,000, showed that the disbursements were for USAID's petty cash fund and not for project activities. The five other disbursements, totaling about \$23,000, were expenses for a contractor that was not involved with the project. These charges were made prior to the transfer of the accounting function to USAID/Suva.

According to USAID/Philippines personnel, these disbursements were charged temporarily to the project in order to expedite the processing of payments. Moreover, USAID/Suva requested that payments be made without appropriate funding sources based on verbal instructions to USAID/Philippines to charge these expenditures temporarily to any project with available funds so that payments could be processed immediately. These charges were reversed upon receipt of appropriate documents by USAID/Philippines. However, since the accounting function was transferred to USAID/Suva, some disbursements were not reversed or corrected. To determine whether the necessary reversing entries were made, the Controller at USAID/Suva plans to do a verification of all disbursements under the project.

#### **Disbursements Were Made Without Adequate Verification Of Expenses**

USAID/Suva disburses project funds on a quarterly advance and liquidation basis. Based on estimates of expenses for the quarter, USAID advances funds to the University of the South Pacific directly and to the University of Hawaii by Letter of Credit through the Treasury Financial Communication System. USAID relies on quarterly expense statements submitted by the universities to liquidate the advances.

USAID/Suva has liquidated advances without adequate assurance that

expenses were incurred. We reviewed expense statements for 1989 submitted by the University of the South Pacific to USAID/Suva for reimbursement. Our review showed that no documentation--such as receipts, delivery orders or payment vouchers--were submitted by the university in support of the expense statements. In addition, USAID had not conducted verifications of payments made to the university since it assumed financial accounting and control of project activities in October 1989. Furthermore, payment verifications had not been conducted by USAID/Philippines, which had these responsibilities prior to October 1, 1989.

We tested the validity of expenses claimed by the University of the South Pacific in its expense statements for calendar year 1989. We traced the line items from the expense statements to supporting documents at the Bursar's Offices of the University and at the School of Agriculture. This work demonstrated that the expenses were valid. However, there were long delays in claiming some expenses for reimbursement. For example, most expenses claimed for reimbursement in the second quarter, April through June 1989, were incurred in December 1988--four months prior to the second quarter. One expense claimed for the quarter was incurred in June 1988. These delays in reporting expenses for reimbursement, in conjunction with the absence of payment verifications by USAID, create opportunities for expenses to go unreported or to be reported for reimbursement more than once.

#### **USAID/Suva Had Not Assessed the Project's Accounting and Control Procedures**

On October 1, 1989, responsibility for accounting and control of project funds was transferred to USAID/Suva. However, the Controller's Office at USAID/Suva has not conducted payment verifications for any of USAID's projects because of staff limitations. Since the transfer, the Controller has concentrated on implementing the Mission Accounting and Control System. Most of his time has been spent entering data for USAID projects. After the system is operational, the Controller plans to assess the accuracy of the data.

Accounting and control procedures over project funds should be

strengthened. We found that some financial reports were inaccurate and unreliable and expenses of about \$36,000 were not project related. In addition, funds have been disbursed without adequate assurance that expenses were incurred. Documentation to support the expenses has not been routinely reviewed and payment verifications have not been conducted. As a result, USAID/Suva lacks assurance that project funds have been disbursed efficiently and effectively and for project purposes.

### Management Comments and Our Evaluation

USAID/Suva has reviewed the project accounts and made corrections in financial reports as necessary. This review was accomplished as part of a systematic assessment of all projects for which financial responsibility was transferred from USAID/Philippines on October 1, 1989. USAID officials agreed that they have not assessed the University of the South Pacific's accounting and control procedures since the transfer of financial responsibility. Management assumes that University procedures are adequate because the project has been in operation for 10 years, vouchers were processed by USAID/Philippines--presumably with adequate assessment and verification--and a prior audit found no significant accounting, control and reporting problems.

Management actions are partially responsive to Recommendation No. 3. Management has reviewed project financial accounts at USAID and corrected financial reports as necessary. However, management has not taken action to ensure that expenses claimed by the the University for reimbursement are valid. Voucher verifications have not been accomplished since the project began. In addition, this and the prior audit of the project raised questions about the timeliness and accuracy of expenses submitted by the University for reimbursement. We believe an assessment of the University's accounting and control procedures is necessary. Therefore, Recommendation No. 3 is unresolved pending agreement on a responsive plan of action.

Management has not initiated action on Recommendation No. 4. Weaknesses in accounting and control procedures over project funds justify an assessment

of project disbursements to ensure that they were made for eligible expenses. Therefore, Recommendation No. 4 is unresolved pending agreement on a responsive plan of action.

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# REPORT ON INTERNAL CONTROLS

We have audited USAID/Suva's South Pacific Region Agricultural Development Project for the period September 16, 1980, through June 12, 1990, and have issued our report dated December 19, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives and
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer each of the three audit objectives and not to provide assurance on the internal control structure.

The management of A.I.D., including USAID/Suva, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have classified significant internal control policies and procedures applicable to each of the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation--and we assessed control risk. In doing this, we found certain problems that we consider reportable under standards established by the Comptroller General of the United States. Reportable conditions are those relating to significant deficiencies in the operation of the internal control structure which we became aware of and which, in our judgment, could adversely affect USAID/Suva's ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

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### **Audit Objective One**

The first objective concerns whether sustainable progress has being made in achieving project objectives. Audit work demonstrated that progress has been made. However, this progress may not continue after A.I.D. funding ends

because, contrary to A.I.D. Handbook 3, Section 14A, paragraph 2c, financial arrangements for project activities as alternatives to A.I.D. funding have not been made.

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### **Audit Objective Two**

The second objective assesses whether contributions of \$10 million are being made by the University of the South Pacific as required by the grant agreement. Audit work found that officials could not determine whether the University was meeting this requirement because neither USAID/Suva nor the University tracks University contributions.

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### **Audit Objective Three**

Objective three concerns the adequacy of accounting and control procedures for project funds. According to Chapter 1 of A.I.D. Handbook 19, a reliable accounting system is necessary to ensure the accountability of funds and efficient and effective implementation of Agency operations. Audit work determined that project-related financial data were inaccurate, some financial reports were unreliable and funds were disbursed without adequate verification of expenses.

A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on projects funds being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all

matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described under the three audit objectives are material weaknesses.

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# REPORT ON COMPLIANCE

We have audited USAID/Suva's South Pacific Region Agricultural Development Project for the period September 16, 1980, through June 12, 1990, and have issued our report dated December 19, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

Noncompliance is a failure to follow requirements or a violation of prohibitions contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with laws, regulations, contracts and grants applicable to the project is the overall responsibility of USAID/Suva's management. As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Suva, contractor, and grantee compliance with certain provisions of Federal laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests of compliance disclosed that, as discussed under the second objective, USAID/Suva was not sure whether the University of the South Pacific was making the \$10 million contribution to project activities agreed to in the project's grant agreement. Neither USAID/Suva nor the University had implemented systems to track in-kind contributions made by the University.

Except as described, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Suva, contractors and the grantee complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/Suva, contractors and the grantee had not complied, in all significant respects, with those provisions.

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# SCOPE AND METHODOLOGY

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## Scope

We audited USAID/Suva's South Pacific Region Agricultural Development Project in accordance with generally accepted government auditing standards. We conducted the audit from April 23 through June 12, 1990, and covered the systems and procedures relating to project inputs financed by A.I.D. from September 1980 through April 1990. We conducted field work at USAID/Suva, the University of the South Pacific's main campus at Suva, Fiji, the University of the South Pacific's School of Agriculture at Alafua, Western Samoa and the Tongan Ministry of Agriculture, Forests and Fisheries' Agricultural Research Station at Vaini, Tonga.

The audit objectives did not cover the following areas:

- The audit did not review the contract with the University of Hawaii or the procedures followed in making payments to it by letter of credit through the U.S. Department of the Treasury's Financial Communication System.
- The audit did not assess the internal controls established by the University of Hawaii.

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## Methodology

The methodology for each audit objective follows:

### Audit Objective One

Objective one assessed whether the project has made sustainable progress toward achieving its objectives. We determined the progress made in strengthening the academic programs and research capabilities of the School of Agriculture through:

- discussions with officials at USAID/Suva, faculty and staff at the School, and representatives of international donor organizations sponsoring research at the School;
- reviews of progress reports prepared by technical assistance contractors, project implementation reports prepared by the project officer, and project evaluation reports;
- analyses of changes in the School's academic and research programs since the project began and
- a visit to a research site.

To assess progress in extension and technology dissemination, we reviewed project-funded publications, journals and radio and television productions; evaluated the role of the project-funded agricultural extension agents in disseminating information and visited an extension site.

To assess whether the progress achieved by the project was likely to continue after A.I.D. participation in the project ends, we analyzed the School's operating budget for 1990 to determine the percentage of School operating expenses supported by project funds. In addition, we determined the percentage of students at the School that were studying under project-funded scholarships, and we held discussions with USAID/Suva and School officials to identify plans for phasing out A.I.D. funding.

### Audit Objective Two

To determine whether the counterpart contribution was being made by the University of the South Pacific, we reviewed financial records at the

University and at the Controller's Office, USAID/Suva. We also held discussions with the Bursar for the University and with the Controller for USAID/Suva.

### Audit Objective Three

The third objective was to assess the accounting and control procedures over project funds. The Regional Inspector General for Audit/Manila conducted a financial audit, under the non-federal audit program, of project-related expenses incurred by the University of the South Pacific and reimbursed by USAID/Suva between March 17, 1980, and October 1, 1985. On October 1, 1989, responsibility for accounting and control of project funds was transferred from USAID/Philippines to USAID/Suva. Our work was limited to accounting and control procedures implemented at USAID/Suva since the transfer. We reviewed the accuracy of project-related financial reports produced during April and May of 1990 by the Mission Accounting and Control System at USAID/Suva. In addition, we reviewed expense summaries submitted by the University for reimbursement during calendar year 1989, totaling about \$350,000, and traced them to supporting documentation. Reimbursements during calendar year 1989 represent about 18 percent of \$2 million in reimbursements made by A.I.D. to the University of the South Pacific over the life of the project and about 35 percent of reimbursements since October 1, 1985, the end of the period covered by the non-federal audit.

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

APPENDIX II

Regional Development Office/South Pacific

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Suva, Fiji.

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MEMORANDUM

13 November 1990

To: William C. Montoney, Regional Inspector General

I. Peterson, Controller, RDO/SP/Suva

Subject: Audit of the South Pacific Region Agricultural  
Development Project No., 879-0267.

We have several comments concerning the draft which you may wish to consider before the report is finalized. The comments concerning Recommendations 1 and 2 should, in normal circumstances, have been covered during the field work or in the exit conference; unfortunately the project officer was on home leave at that time and we lacked the benefit of his knowledge and expertise.

RECOMMENDATION NO. 1: Phase Out Strategy

There has not been a USAID decision to terminate its support to USP-Alafua after the completion of the second phase of the SPRAD project in December 1991. There has been a change in USAID's approach to its support of USP-Alafua.

The first two phases (1980-1991) have been characterized by normal institution building approach for the school of agriculture. As noted in the draft report, many of the objectives identified in the SPRAD project have been accomplished. USAID now is proposing that its agricultural development program in the South Pacific focus on the private sector and this can be accomplished in part with direct support from regional agricultural institutions such as USP-Alafua.

As a result, USAID is proposing financial assistance to USP- Alafua in order for Alafua to support the further development of commercial agriculture in the region. The USAID project manager and USP-Alafua personnel have met a number of times in the past two months to plan this future support. (Meetings were held in Western Samoa during the weeks of August 6 and August 27 and in Fiji during the weeks of September 24 and October 1). USAID expects that its new project will be authorized during FY91 and, subject to the availability of funds, a new grant can be negotiated with USP prior to the current PACD of SPRAD.

In addition, USP-Alafua and the University of Hawaii expect that approximately \$250,000 will still be available at the time of the PACD (December 31, 1991). These funds have been allocated to the training/scholarship component of the grant (USP) and contract (UH). USAID plans to submit a request to AID/W in December 1990 for an extension of the PACD by two years in order to allow for the completion of these important training activities. This request for extension will have to be approved by the Administrator due to the project's length of 11 years.

As is appropriate for a regional institution, USP-Alafua has a number of donor organizations supporting its programs. These include the governments of Australia, New Zealand, and United Kingdom as well as multilateral organizations such as the EEC, Asian Development Bank and FAO/UNDP. In recent months negotiations have been held with a variety of donors to provide additional funds for Alafua's activities. These include the EEC (for research activities); British Development Division in the Pacific (for agro -forestry); Asian Development Bank (for agro-forestry); New Zealand (for the development of the school farm); and the Commonwealth Fund (publications and information). In addition, internal discussions at the USP main campus in Suva in September have resulted in an increase of \$150,000 for this financial year from USP's own budget resources.

Considering the current status described above, this section of the report, and Recommendation No.1, should be revised.

**RECOMMENDATION NO. 2 : USP Contribution**

First, the amount of the USP contribution to the project is \$10.0 million per the Project Paper of April 1985. The recommendation states \$15.0 million - although elsewhere on page 12 it states \$10.0 million. Probably a typo.

The SPRAD project is, effectively, an institutional development program that was designed to support the School of Agriculture at Alafua. USAID believes that the SPRAD project is, as intended, an integral part of that school and the University is not realistically able to assign the contributed value of classroom space, equipment and the like from the University budget to SPRAD funded activities.

USAID agrees that a grantee should have a vested interest in a project and USAID believes that USP has demonstrated its continued support for the School of Agriculture. This is shown by its increasing number of senior staff positions and its increasing annual budgets. Approved staff positions have increased from 16 in 1980 to 26.5 in 1991 (the 1991 budget has already been approved). During the same period, the University's annual budget support to the School of Agriculture has increased from US\$253,000 to over U.S\$1.67 million. Approximately U.S. \$11.6 million will have been provided to the Alafua campus for the period 1980 - 1991 by the University; this may be confirmed by the Chief Accountant at Alafua.

USAID believes this supports the purpose of A.I.D.'s Policy on Recurrent Costs. The University shows every indication of supporting its vested interest in continuing as the region's school of agriculture. Given the total integration of the SPRAD project within the School of Agriculture, it is not practical to develop a separate tracking system for University "project" inputs.

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Findings and Comments Related to Recommendations 3 and 4:

1. USAID Accounting and control procedures are adequate if properly implemented; we informed the auditors at the time of the field work that none of the project financial accounts and related reports transferred from Manila were accurate or reliable and that we were correcting each project's accounts and reports as quickly as staff time and limited budgetary resources allowed. The draft report's observation that some disbursements were not project related is an accurate but redundant reflection of this overall accounting deficiency that, again, has been in the process of correction since the accounts were transferred to Suva. The Mission's approach to analyzing and correcting the project accounts (and related reports), has been to process one project at a time while simultaneously making related or other system corrections that are forced by necessary journal entries, arrival of an advices of charge, etcetera. Corrections to this project's accounts, which commenced after the audit field work was completed, have now been finished and the related financial reports have been revised to provide meaningful and reliable information to the project managers.

2. The draft report is correct in stating Suva has not assessed the University of the South Pacific's Accounting procedures and related controls since taking over accounting responsibility on October 1, 1989. However, the fact that the project has been in progress for almost 10 years before that date and vouchers had been processed by Manila, presumably with adequate assessment/verification, together with the fact, as pointed out in the draft report, that the project has been audited in the past without disclosing significant accounting procedure, control or reporting problems, lead us to assume the Universities' procedures and controls were adequate and their expenditure reports reliable as a basis for advance liquidation without requiring an assessment or submission of detailed supporting vouchers. If our assumption is wrong and your audit shows we cannot rely on the Universities procedures and reports (your draft indicates Manila did no payment verification), the recommendation for a review is valid and we will make necessary arrangements; otherwise the draft should be revised. I have used this phrasing concerning the finding and recommendation because your draft report, at the top of page 19, indicates that, except for timeliness, our assumption of USF report reliability may well be correct.

33'

On the same point - since by implication all projects are affected - even though we agree with the need for periodic review of recipient procedures and controls, the Mission, does not consider it necessary to review each recipient in our project portfolio just because there was a change in accounting station; as your draft notes, we have neither the human nor financial resources to do so. We have, therefore, concentrated our review/assessment efforts on new project activities. Obviously, if we have cause for concern we will promptly arrange for review of older activities/recipients as required.

General Observation:

I dispute - indeed totally reject - the veracity of the statements made by USAID/Philippines personnel that are contained in the last paragraph on page 17 of the draft audit report.

cc: John Woods, Director  
E. Witt, Project Officer

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