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AUDIT OF OAR/TOGO'S PRIVATE SECTOR PROJECTS

693-0227, 693-0226 & 693-0224

Audit Report No. 7-693-91-07
February 28, 1991

The audit covered the current and two predecessor projects. The first audit objective was to assess the accomplishment of planned outputs and was limited to the current Togo Rural Institutions and Private Sector (TRIPS) Project. Though TRIPS was still in the early stages of implementation, it was found to be generally accomplishing its outputs with the important exception of the initiation of an insurance program to protect credit union member deposits. With respect to two other audit objectives, serious problems were found to exist in all three projects in the areas of financial reporting/monitoring and accounting for project commodities.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
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February 28, 1991

MEMORANDUM

TO: Mark G. Wentling, AID/Rep, Togo

FROM: Paul E. Armstrong, RIG/A/D

SUBJECT: Audit of OAR/Togo's Private Sector Projects 693-0227, 693-0226 & 693-0224, Audit Report No. 7-693-91-07

Enclosed are 5 copies of our Audit Report on OAR/Togo's Private Sector Projects, Report No. 7-693-91-07.

All recommendations are resolved with the exception of No. 3 which is not addressed to your office. Based on reported actions taken, we are closing Recommendation Nos. 2.2, 5, and 9 with the issuance of this report. The remaining recommendations need some further action by your office before they can be closed. Please advise us within 30 days of additional actions taken to close the remaining open recommendations.

I appreciate the rapid response to our draft recommendations and the outstanding cooperation and courtesies extended to my staff during the audit.

Att: AS

EXECUTIVE SUMMARY

It is A.I.D.'s policy to encourage developing countries to (1) open their economies to a greater reliance on competitive markets and private enterprise in order to meet the basic human needs of the their poor majorities through broadly-based self-sustained economic growth and, (2) to foster the growth of productive self-sustaining income and job producing private enterprises.

To achieve these policy objectives, OAR/Togo implemented three private sector projects since 1983 including: the Togo Credit Union Development Project (completed), the Zio River Economic Project (completed), and the current Togo Rural Institutions and Private Sector Project. A.I.D. provided funding for each project at $2.2 million, $3.5 million and $12 million, respectively. The accomplishment of the audit objectives, some of which involved all three projects, was facilitated by the fact that the PVOs implementing the current project were the ones who implemented the two completed predecessor projects.

Between June 10 and August 10, 1990, we audited the three projects in accordance with generally accepted government auditing standards and found the following nine conditions:

> Although the current project is generally achieving its projected level of outputs in the early stages of implementation, a required insurance program to protect credit union member deposits had not been established (see page 4).
>
> Financial reporting by the PVOs and financial monitoring by OAR/Togo was inadequate (see page 6).
>
> A.I.D./ W needs to write-off $629,580 from projects previously implemented by an insolvent PVO (see page 9).
>
> Funding amounting to $494,000 under the current project was allocated for a central liquidity fund to assist credit unions. Due to low credit demand, this funding is in excess of needs and some of it may be reprogrammed (see page 10).
>
> One of the implementing PVOs was not completely fulfilling its financial commitment to the current project, a shortfall which could be as much as $331,000 (see page 11).
>
> The PVOs' system of inventory management needs improvement under the current project (see page 12).

The commodities budget was exceeded by over $144,000 under the Zio River Economic Development Project. Also, $171,000 of commodities were actually purchased under the Zio River Project for use under the current TRIPS Project, a serious circumvention of project accounting controls. (See page 13).

One of the implementing PVOs sold project assets without proper authorization (see page 15). Photographs of these unauthorized sales are presented on the following page.

Project vehicles were used for non-project activities (see page 16).

The report contains nine findings and recommendations. It also (1) presents our assessment of internal controls (see page 18) and (2) reports on OAR/Togo's compliance with applicable laws and regulations (see page 21). During the audit, the OAR indicated agreement with the findings and had already initiated actions to resolve the problems.

Office of the Inspector General

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February 28, 1991

CARE was selling these motorcycles to extension agents on the TRIPS project when according to the cooperative agreement, they were supposed to be transferred to the GOT at project completion. See page 15.

Rototillers funded under the current TRIPS project. CARE sold similar rototillers under the predecessor Zio River Project but could not produce the sales authorization which they stated they received from the GOT. See page 15.

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INTRODUCTION

Background

Since 1983, A.I.D. has funded three projects to develop and strengthen Togo's private sector. The current $12 million Togo Rural Institutions and Private Sector (TRIPS) Project (693-0227) was initiated in January 1989 to increase Togo's rural incomes by expanding and diversifying the country's agricultural sector. Its purposes are to expand the participation of Togolese private sector institutions in agricultural and rural financial markets on a sustainable basis. Upon its completion on December 30, 1993 the TRIPS project is expected to have:

- strengthened Togo's credit union movement and rural private enterprises; and

- improved the environment for private sector development.

The two predecessor projects were the $2.2 million Togo Credit Union Development Project (#693-0224) and the $3.5 million Zio River Economic Development Project (#693-0226). These projects had goals similar to TRIPS and were completed in December 1988 and July 1989, respectively.

A.I.D. authorized $12 million for TRIPS and the Government of Togo (GOT) committed $1.5 million of principally in-kind contributions. As of June 30, 1990, A.I.D. had accrued expenditures totalling $1.8 million.

The Office of the A.I.D. Representative, Togo (OAR/Togo) is responsible for overall project monitoring and coordination. There is no Controller function at OAR/Togo and the official accounting station is centralized in the A.I.D. regional office in Abidjan, Ivory Coast, (REDSO/WAAC).

Two U.S. private voluntary organizations (PVOs), the Cooperative for American Relief Everywhere (CARE) and Credit Union National Association, Inc (CUNA), provide technical assistance to the TRIPS Project under cooperative agreements with A.I.D. for $5.2 million and $5.3 million respectively. CARE is responsible for promoting producer groups, increasing the effectiveness of public and private sector extension organizations, and assisting entrepreneurs in expanding agricultural production. CUNA's role is to strengthen Togo's National Federation of Credit Unions (FUCEC) by expanding its credit union network and providing technical assistance to credit union members. FUCEC

(Federation des Unions Cooperatives d'Epargne et du Credit) is not a GOT agency, but rather a private concern representing the interest of Federation of Togolese Credit Unions.

Initially, Partners for Productivity (PFP) was the PVO implementing the Zio River Economic Development Project. However, because of financial problems, the PVO was eventually dissolved in 1986 and CARE signed a contract with A.I.D to assume PFP's worldwide project portfolio and also take over part of PFP's liability to A.I.D.

Audit Objectives

The Office of the Regional Inspector General for Audit, Dakar, audited OAR/Togo's Private Sector Projects to answer the following objectives:

1. Was the Togo Rural Institutions and Private Sector (TRIPS) Project effective in meeting its planned levels of outputs?

2. Did OAR/Togo and the Private Voluntary Organizations (PVOs) account for project funds in accordance with applicable agreements and Agency policies and procedures?

3. Did the PVOs establish sound inventory controls over project commodities and equipment?

Objective one focussed on the TRIPS project. However, in answering audit objectives 2 and 3, we included the two predecessor projects in addition to TRIPS in our audit coverage.

In answering these audit objectives, we tested whether OAR/Togo and the PVOs (1) followed applicable internal control procedures; and (2) complied with certain provisions of laws, regulations, and agreements. 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, OAR/Togo or the PVOs 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 whether OAR/Togo or the PVOs were following a procedure or complying with legal requirements;

- identify the cause and effect of the problems; and

- make recommendations to correct the condition and cause of the problems.

Appendix III describes in detail the scope and methodology for this audit.

REPORT OF AUDIT FINDINGS

Was The Togo Rural Institutions And Private Sector (TRIPS) Project Effective In Meeting Its Planned Levels Of Outputs?

The audit showed that, after eighteen months of activity, the TRIPS project was generally meeting, or in some cases surpassing its planned level of output. These indicators of output include key project components such as promotion of sustainable producer groups, spread of project methodology to private/public sector organizations and privatization of essential services. Under each component various objective indicators are listed and the planned outputs are shown.

In order to assess TRIPs' progress, we reviewed 22 key output indicators for year 1 (1989) and noted that the project was substantially meeting its planned targets. Appendices V and VI summarize the project accomplishments for year 1. However, one key progress indicator which the audit determined to be critical--establishing a risk management insurance program to protect credit union member funds--had not yet been achieved. This is discussed in detail below.

The National Federation of Credit Unions (FUCEC) Needs To Establish a Risk Management Insurance Program to Protect Credit Union Funds

One of the conditions precedent to disbursement under the TRIPS project agreement was that the Government of Togo (GOT) provide a copy of a formally issued letter to FUCEC which indicates approval of a FUCEC-sponsored risk management insurance program. While the letter was provided, the risk management program still had not yet been established, two years after the agreement was signed.

> **Recommendation No. 1: We recommend that the A.I.D. Representative, Togo, coordinate with the Government of Togo and the Credit Union National Association to assist the National Federation of Credit Unions (FUCEC) to implement a risk management insurance program within a specific time-frame.**

Outstanding loans to credit union members have amounted to CFA 918,189,347 (about $3.5 million using an exchange rate of CFA 260 to $1.00) as of May 1990. Although these loans are member deposits, and are not part of A.I.D. project funding, default could result in a negative image for the Agency and the project because A.I.D. provides FUCEC with $2.2 million under the TRIPS project to expand the credit union network and improve services. More importantly, a major embezzlement or bankruptcy could seriously undermine the accomplishment of the credit union development which is a significant project component. Mission officials stated that the problem is one of legislation--the general rules that apply to insurance companies do not apply to credit unions. FUCEC officials stated that the GOT was working on the issue, but did not know when it would be resolved.

CUNA officials have indicated that an immediate resolution may not be foreseeable. As a result, the credit union members have neither recourse nor protection in cases of embezzlement, dissolution or bankruptcy of a credit union.

Moreover, CUNA officials pointed out that all of the credit unions under FUCEC are not honest. For example, some credit union board members will award themselves loans without repaying them. CUNA once tried to address this problem at a particular credit union, but was advised by the GOT not to interfere with the internal affairs of the credit unions. CUNA officials expressed fears that should one of the credit unions go bankrupt the project would receive very bad publicity which would be detrimental to project objectives. Unless a risk management insurance program is established, credit union member deposits are vulnerable to loss and abuse. It is therefore imperative to make a more concerted effort to implement the insurance program.

Did OAR/Togo And The Private Voluntary Organizations (PVOs) Account For Project Funds In Accordance With Applicable Agreements And Agency Policies And Procedures?

OAR/Togo did not monitor and account for PVO home-office expenses which represented the majority of funding under all three projects. A major reason was A.I.D.'s reimbursement method under the letter of credit system which does not require line-item expense data under grants and cooperative agreements. The only information required to be submitted by the PVOs are the Financial Status Report (SF-269) and the Federal Cash Transactions Report (SF-272). Neither provides financial information to enable the Mission to review project expenditures for reasonableness, nor facilitates meaningful comparison with established budgets. Moreover, neither PVO was submitting the Federal Cash Transactions Report to OAR/Togo as required which prevented the Mission from monitoring cash advanced to the recipient.

Other financially-related problems include (1) the need for A.I.D./W to write-off losses totalling $629,580 from an insolvent PVO; and (2) $494,000 of unneeded funds allocated to the Central Liquidity Fund (CLF) under the TRIPS Project. The CLF is used to maintain reserves for the credit union cooperatives. According to CUNA officials, the fund has already adequate reserves and therefore the above allocation is unnecessary.

Finally, CARE was not fully meeting its financial commitment to the TRIPS Project with the result that the project will lose the developmental benefits of about $331,000 unless the situation is corrected. Detailed discussion of these findings are presented below.

Financial Reporting And Monitoring Was Inadequate Under All Three Projects

Neither CARE nor CUNA provided the required monthly Federal Cash Transactions (FCT) Report to OAR/T, who never requested them. These conditions resulted in financial vulnerability for all three projects, since the OAR could not review expenditures made by CARE for line item budget restrictions nor for reasonableness. For example, under the predecessor Zio River Project, during the period January to June 1989, the FSR's showed that $563,344 was charged to A.I.D. which is $56,003 more than the $507,341 shown on the line item expenditure report which was provided on special request to the auditors by CARE/Togo.

<u>Recommendation No. 2</u>: **We recommend that OAR/Togo:**

2.1 require CARE to submit line-item-expenses by budget category for project expenditures (outlays) as an attachment to the Financial Status Reports (SF-269's) for the Project Officer's review;

2.2 **require CARE and CUNA to submit all Federal Cash Transaction Reports since the current project's inception in January 1989 and submit all subsequent reports on a monthly basis;**

2.3 **require CARE to submit documentation to account for the differences including $56,003 charged to the Zio River Project, and $12,688 charged to the TRIPS Project during the period January through June 1989 and disallow those charges which cannot be supported; and**

2.4 **submit documents to the satisfaction of OAR/Togo to show that no duplicate billings were made to A.I.D. during the six-month overlapping period from January through June, 1989.**

Appendix 4C of A.I.D. Handbook 13 on Nongovernmental Grantees states that, grantees are required only to submit a Financial Status Report (SF-269) and a Federal Cash Transactions Report (SF-272) and to maintain books, records, documents, and other evidence to sufficiently substantiate charges to the grant. Neither supporting documentation nor expense data by line item budget category is required to be submitted to A.I.D.

The Letter of Credit (LOC) financing method allows PVOs to be advanced funding to cover anticipated needs (drawdowns). Afterwards, they are required to account for expenditures (outlays) by submitting the OMB Financial Status Reports (SF-269) on a quarterly basis. AID/W forwards a copy to the mission for the Project Officer's administrative approval. Since SF-269's only show the total outlays for the period, the Project Officers have no other data to review line-item expenses and can neither review the reported expenses for budget restrictions nor reasonableness. This problem is systemic and represents a serious internal control weakness in A.I.D.'s financial reimbursement process.

Even though this line item accountability may be requested by the Missions, the PVOs are not required to submit it. Only the two previously discussed financial reports are required. One of the PVOs, CUNA was submitting this line item information, while the other PVO, CARE was not. The auditors then requested this line-item expense information from CARE/New York, and the PVO responded by stating that it was not required and that we could obtain it from CARE/Togo. The auditors requested and received this information from CARE/Togo--for the six-month period January through June 1989--and compared it to the SF-269 Financial Status Reports. The amounts did not agree. For the period reviewed, under the Zio River Project, the SF-269's show that CARE charged $563,344 under their LOC, or $56,003 more than the $507,341 shown on the line item expenditure report prepared by CARE/Togo for the six-month period. Under the TRIPS Project, for the same period, the SF-269's show CARE charged $181,228 or $12,688 more than the $168,540 shown on the line item expenditure report prepared by

CARE/Togo. The auditors attempted to reconcile the differences by considering such items as overhead or home office transactions not known to Togo. Nevertheless, the differences could not be explained.

Furthermore, CARE was attempting to expend all remaining funds from the Zio River Project prior to expending funding from the TRIPS Project. As a matter of fact, the six-month period reviewed above (January-June 1989) represented an overlap period for the two projects (the first six months of activity for the current TRIPS Project coincided with the last six months of the Zio River Project). Both projects were charged simultaneously during this overlap period--under each budget category--even though there was only one CARE technical assistance team implementing both projects in the field. The auditors were not able to determine the reasonableness and propriety of the concurrent charges made to both projects during the six-month overlapping period since most home-office generated expense documentation were in CARE/New York. It is conceivable that both projects could have been charged for the same expenses without OAR/Togo's knowledge.

The FSR and FCT reports were required by the provisions of the cooperative agreements under all three projects to be submitted by each of the PVO home offices to: FM/CMPD in AID/W, A.I.D.'s West African Accounting Center (WAAC) in Abidjan, and the Project Officer in Togo. The FCT report is required to monitor cash advanced to the recipient under the LOC and to obtain disbursement information for the grants. Neither of the PVOs had been submitting the monthly Federal Cash Transaction (FCT) Reports (SF-272) to the OAR/Togo Project Officer as required by the cooperative agreements since the first of the three projects began in 1983. With OAR/T assistance, the auditors located only one FCT report which was submitted by CUNA for the month of February 1989. That report showed that cumulative net cash disbursements under the Zio River Project #693-0224 amounted to $2,184,466 or $34,466 in excess of the $2,150,000 authorized under the cooperative agreement. This issue was never questioned by the OAR because of the lack of adequate financial oversight. To make matters worse, that same report showed a cash disbursement (an advance under LOC from A.I.D.) of $11,749 charged to the Zio River Project for February 1989 even though the project had ended in December 1988. Considering that this was the sole FCT report which could be located and audited, it is indicative of the potential for financial error.

We advised the A.I.D. Representative that the PVOs were not submitting the FCT reports as was required under all three projects. CUNA responded to our audit by providing a copy of their latest available FCT report for the month of May 1990, fifteen months later than the previously submitted February 1989 FCT report (discussed above). A comparison of the two reports showed that while the cumulative net cash disbursements for the February 1989 report had exceeded the authorized grant amount of $2,150,000 by $34,466--the discrepancy had inexplicably disappeared in the May 1990 FCT report.

Had OAR/Togo obtained and monitored these financial reports they could have identified and taken action to solve these problems. Obviously, under A.I.D.'s Letter-of-Credit system, errors and irregularities can go undetected unless reports are accompanied by additional information and appropriate follow-up action is taken. We believe that line item accountability showing actual expenditures against the budgeted amounts would greatly assist the Project Officers in the field to identify line item expenditures in excess of budget categories and in determining reasonableness of reported expenditures.

A.I.D./W Needs To Write-Off $629,580 From Projects Previously Implemented By Insolvent PVO

Partners For Progress (PFP) was the initial PVO implementing the Zio River Project. The PVO was having financial difficulties and substantially overdrew its letter of credit representing a significant loss to A.I.D. Thus, it became necessary for A.I.D. to write-off the loss against the eleven A.I.D. projects which were being implemented by PFP in nine countries.

PFP was dissolved in 1986 and CARE assumed responsibility for completing the projects, a responsibility which has now been accomplished. Yet, A.I.D./W has not taken the necessary action to write-off this loss and thereby enable Missions to deobligate the residual funds from the worldwide projects which were initially implemented by PFP. For the Zio River Project in Togo, the share of the write-off was determined by A.I.D./W to be $191,608 which was to be charged against the unliquidated funds amounting to $324,702. The remaining $133,094 would be available to OAR/Togo or A.I.D./W for deobligation. In addition to the Zio River Project in Togo, we estimate that more than $200,000 will be available for deobligation worldwide after FM/CMPD distributes the write-off worldwide among the eleven projects.

Recommendation No. 3: We recommend that the A.I.D. Office of Financial Management in Washington:

3.1 Coordinate with A.I.D.'s Office of Procurement (MS/OP) and Office of General Counsel (GC) to initiate the necessary actions to write-off the loss and;

3.2 After all claims and write-offs have been submitted against the projects involved, deobligate the remaining funds.

After PFP was dissolved in 1986, CARE signed a contract with A.I.D. to assume worldwide project responsibilities and liabilities for the entire PFP portfolio in eleven countries. CARE also agreed to make partial restitution to A.I.D. for PFP's excess cash advances. PFP owed A.I.D. about $1.5 million which consisted of a combination of excess drawdowns and unallowable costs. CARE agreed to pay up to but not more than $500,000 of PFP's liability to A.I.D. The exact amount to be paid was to be computed at the ratio of $1 for every $20 of the funds remaining to be disbursed. Financial Management/Cash Management and Payments Division (FM/CMPD) in A.I.D./W determined that CARE would pay A.I.D. $204,100 over three years which represented only a portion of PFP's liability. The remaining portion of PFP's worldwide liability--determined to be $629,580--was to be written off by A.I.D. after CARE had completed the payment to A.I.D. for PFP's partial restitution. The amount of $204,100 was due in March 1990 according to the contract. The auditors found that $40,120 of this amount had not yet been paid by CARE. FM/CMPD explained that they were not aware of the correct due date because they had not received a copy of the contract bet veen A.I.D. and CARE until much later.

Upon being notified by the auditors of the overdue balance, FM/CMPD contacted CARE/NY and the balance of $40,120 was paid on July 20, 1990. However, there remains substantial funds available for deobligation by the missions or by A.I.D./W after the write-off. For example, $133,094 will be available for deobligation from the Zio River Project alone and more than $200,000 additional from the other eleven projects.

CUNA Has $494,000 Budgeted For The Central Liquidity Fund Which Is Not Needed

A budget review and discussion with Credit Union National Association (CUNA) officials revealed that $494,000 budgeted for the Central Liquidity Fund (CLF) under the TRIPS project is not necessary because of limited credit demand by the credit unions. A total of $250,000 was required to be contributed to the CLF at the beginning of the project in January 1989 and the remaining $244,000 was to be contributed about midway through the project, if needed. None of this funding has been used. By reducing the amount authorized in the current cooperative agreement, these idle funds could be reprogrammed to other areas where they can be effectively utilized in the project.

Recommendation No. 4: We recommend that OAR/Togo:

4.1 reprogram the initial $250,000 allocated to the Central Liquidity Fund; and

4.2 determine whether the $244,000 allocated to the Central Liquidity Fund at the project's midpoint will be necessary and if not, reprogram it for other purposes.

According to CUNA's cooperative agreement under the current project, they were to provide up to $494,000 in capitalization for the Central Liquidity Fund (CLF), which was begun under the predecessor Credit Union Development Project. The CLF is to serve as a source of productive credit to support the project's private sector extension and rural industries components. The CLF is used to provide loans to its qualifying cooperative credit unions, who then lend to their members.

CUNA was to provide $250,000 for the fund at the beginning of the project, and following a mid-term evaluation, to provide up to the balance of $244,000 if necessary and matched from other donor or GOT resources. With this funding method, only resources that are actually necessary will be provided to the fund and matching will enable leveraging of A.I.D. resources as well as promoting FUCEC self-sufficiency.

At the time of the audit, the CLF fund balance had exceeded $1 million (much of it from non-A.I.D. sources) as of May 31, 1990. CUNA officials indicated that the fund was sufficient which is why the contribution required at the project's beginning was not made. While CUNA officials agreed the initial $250,000 could be reprogrammed, they indicated caution should be exercised with respect to reprogramming the remaining $244,000 because the fund's needs could change in the future.

CARE Was Not Completely Fulfilling Its Financial Commitment To The Project Which Could Result In A Shortfall of $331,000

The current TRIPS cooperative agreement required CARE to provide $500,000 to the project (presumably at the rate of about $100,000 annually over the five-year project duration). As of April 1990, about 16 months into the project, CARE should have contributed and expended about $133,000. However, CARE had only expended $45,038 of its required contribution. This happened because OAR/Togo had not closely monitored CARE's actual project contributions. At this rate, CARE will have only used about $169,000 of their required $500,000 contribution by the end of the project in December 1993. The result is that the project could lose the developmental benefits of $331,000.

> <u>Recommendation No. 5</u>: **We recommend that OAR/Togo require CARE to submit a financial plan showing the time-frame during which its financial contribution of $500,000 is to be made and expended over the life of the project.**

According to CARE's cooperative agreement under the TRIPS project, they were supposed to provide $500,000 in unrestricted funding over the five-year project duration. According to the project paper, this funding was budgeted for use as other direct costs by CARE and to finance the salaries of some Togolese officials assigned to the project, as well as some costs for expatriate technical assistance. Some limited quantities of commodities would also be covered by this unrestricted CARE account.

CARE/Togo officials requested and received from CARE/New York the $100,000 budget for TRIPS during the first year in 1990. Though it was budgeted, it was not all used by CARE during the first year. In fact, only $45,038 was used. CARE/Togo officials stated they requested the $100,000 from CARE/NY for the second year (fiscal year 1991) to cover their required contribution to the TRIPS Project, but CARE/NY only approved a budget of $86,510 for the entire fiscal year. The second year funding has yet to be used. We believe, that unless this issue is promptly resolved, the TRIPS Project may not receive the full benefit of CARE's required contribution, or CARE could ultimately use A.I.D. funds in lieu of their own.

Did The PVOs Establish Sound Inventory Controls Over Project Commodities And Equipment?

For the items tested, the PVOs had established systems to account for the receipt and recording of warehouse commodities under the current TRIPS Project. However, adequate inventory control systems had not been developed to account for all project commodities in other locations. Nor was either PVO properly reporting the status of A.I.D.-financed commodities to OAR/Togo.

Under the Zio River Project, CARE exceeded the budget for commodity procurement by over $144,000. Also, about $171,000 was used to purchase commodities under the Zio River Project for use on the successor TRIPS Project.

Furthermore, CARE: (1) sold project inventories valued at about $75,000 without A.I.D.'s authorization; and (2) was using project vehicles for personal use depriving the Zio River and TRIPS Projects of about $45,000 in estimated developmental benefits. Detailed discussions of these audit findings are presented below.

<u>The PVOs' System Of Commodity Management Needs Improvement</u>

The audit disclosed several commodity management reporting deficiencies: (1) The OAR/Togo had not been provided with required closeout inventory reports for either of the predecessor projects; (2) CARE had not yet provided the GOT with a final inventory report of the Zio River Project (#693-0226) commodities in response to a request made by the GOT two years ago; (3) the implementing PVOs had also not provided annual inventory reports to OAR/Togo since the first of these private sector projects began in 1983; (4) some of CARE's office commodities could not be properly identified.

<u>Recommendation No. 6</u>: **We recommend that OAR/Togo:**

6.1 require CARE to fully develop its system of commodity accountability including the proper identification of all A.I.D financed commodities;

6.2 require that CARE provide an immediate accounting of Project #693-0226 commodities to the OAR and GOT; and

6.3 obtain from CARE and CUNA an immediate and accurate accounting of commodities by project and require them to submit annual inventory reports in the future.

A.I.D. procedures and the provisions of the agreements required the PVOs to provide inventory reports under the two predecessor projects. Prudent commodity management would require periodic inventories be conducted to ensure that commodities are properly maintained and accounted for. At a minimum, an inventory management system should include comprehensive property records identifying each asset, its costs, location, and date of acquisition. The agreements with the PVOs stipulated that title to commodities procured under each project would be transferred to the GOT upon project completion.

According to the predecessor Zio River Project Agreement #693-0226, CARE was to establish a system, to be approved by A.I.D., for the receipt, use, maintenance, protection, custody and care of project equipment, materials and supplies, including the establishment of reasonable controls to operate the system. However, this system was not established.

In addition, CARE was required to provide an inventory list to A.I.D. and the GOT within 90 days after the completion of the Zio River Project activities covering all items of equipment, materials and supplies in its custody. This was not done.

Under the Zio River Project Agreement, title to vehicles (except motorcycles) and capital equipment were eventually to be transferred to the GOT and a written report was to be prepared for A.I.D. specifying the actions taken by CARE to dispose of the equipment. CARE had not provided such a report to either A.I.D. or the GOT for Project #693-0226.

While CARE had not fully implemented the commodity management and reporting system, the Mission, on its part, did not require the PVOs to conform to provisions of the project agreement relating to commodity control and reporting. This was brought to the attention of Mission Officials who have since established a written policy requiring site visits as well as the preparation of written reports on problem areas.

Furthermore, CARE's office furniture and equipment could not be fully accounted for because they were not all properly tagged. Moreover, CARE had all AID/Togo project commodities consisting of Projects #693-0226 and #693-0227 totalling about $475,000 lumped together with its own office inventory in the same data base. Thus, it was almost impossible for CARE to properly account for inventory by project as required.

As a result of these deficiencies, OAR/T did not have an adequate accounting of the total estimated $575,000 (CARE had about $475,000 and CUNA about $100,000) in project commodities held by CARE and CUNA.

Commodities Amounting To $171,000 Were Purchased From The Former Project Funds For Use On The Successor Project

The financial plan for the Zio River Project provided a limitation of $219,978 on commodity procurement which included the budgeted amount plus the standard 15 percent line item category adjustment permitted. CARE exceeded the budget by $144,319 when total commodity purchases amounted to $364,297 without obtaining the required A.I.D. approval. More importantly, about $171,000 was used for the purchase of vehicles and other commodities on the successor TRIPS Project. These conditions occurred because CARE attempted to expend all or most of the remaining funds from the predecessor project after taking over from an insolvent PVO as discussed on page 9. The result is that the current TRIPS Project will need $171,000 less for the purchase of planned commodities. OAR/Togo should either recommend disallowance of the commodity purchases in excess of budget or otherwise resolve the non-compliance with budget limitations.

<u>Recommendation No. 7</u>: **We recommend that OAR/Togo:**

7.1 **reduce the authorized funding of CARE's Agreement for the TRIPS Project by the amount of at least $171,000 which represented funding from the predecessor project #693-0226 used for the purchase of commodities on the current TRIPS Project #693-0227;**

7.2 **disallow the commodities purchased by CARE in excess of budget under the TRIPS Project, or otherwise resolve the non-compliance with budget limitations.**

The financial plan for the cooperative agreement under the Zio River Project provided that commodities could be purchased during the first three years of project activity (from August 1984 through July 1987) within a budget of $219,978 which included the standard 15 percent line item category adjustment. CARE assumed the responsibilities of the Zio River Project in January 1987 from the former PVO, Partners For Productivity (PFP) which became insolvent which also meant adherence to the predecessor project's financial plan.

Even though commodities purchased by the former PVO (PFP) were transferred to CARE, further procurements by CARE resulted in approximately $364,297 in total commodity expenditures which substantially exceeded the $219,978 (consisting of $191,285 commodity budget + 15 percent line item adjustment) limitation established in the financial plan.

Funding should be obligated to provide support only for the project for which the funds have been appropriated. However, CARE charged commodity purchases totalling about $171,000 to the predecessor Zio River Project during the last year of this project's activity in 1989 and transferred those commodities to the current TRIPS project. The purchases included vehicles, furniture, motorcycles and equipment. Its was therefore evident that CARE was unilaterally transferring the funds from the predecessor project to the successor TRIPS Project, without A.I.D.'s concurrence. This represents, in our opinion, not only a circumvention of standard project accounting procedures, but more seriously, could be viewed as an evasion of Agency or Congressional intent.

CARE Made Unauthorized Sales Of Project Assets

CARE sold project assets under the Zio River and TRIPS Projects which were required to be transferred to the GOT. For example, there are thirty motorcycles being purchased under the current TRIPS Project expected to cost about $45,000 which are also being sold in contravention of the cooperative agreement. Though CARE officials stated that they had authorization, they were unable to provide written evidence. As a result, the GOT was denied the use of several assets valued at about $75,000 which could have been used for project purposes.

Recommendation No. 8: We recommend that OAR/Togo:

8.1 require CARE to either submit the reported authorization to sell project assets to A.I.D., or reimburse A.I.D. in the amount of the proceeds of the unauthorized asset sales; and

8.2 require CARE to obtain the OAR's and the host government's written approval prior to any further sale of project assets.

According to the cooperative agreements for the predecessor Zio River Project #693-0226, and the current TRIPS Project #693-0227, CARE was required to transfer certain AID-funded commodities, including vehicles, rototillers, farm machinery and motorcycles, to the Government of Togo (GOT). The Project Officer indicated that the GOT would have authorized these sales, if CARE had requested. However, the Project Officer was not aware of whether the request and authorization had been made.

Nevertheless, three project vehicles were sold by CARE for $4,750 because they were not in operating condition. According to CARE, the project benefitted because the sales proceeds were returned to the vehicle account, to allow CARE to purchase additional vehicles if deemed necessary. According to CARE/Togo officials, the Country Director requested permission from the GOT to sell certain vehicles and purchase new ones. However, the authorization could not be located since the Country Director was out of town.

Similarly, seven rototillers were sold for about $41,000 and the proceeds credited to the asset accounts. CARE stated that OAR/Togo was aware of the sale and they had received the GOT's authorization to sell the rototillers, which, again, they were unable to provide.

CARE was also in the process of selling thirty motorcycles estimated to cost about $45,000 under the TRIPS Project which according to their cooperative agreement were to be transferred to the GOT at the completion of the project. CARE has established a contractual arrangement with the extension agents using the motorcycles whereby the agents pay forty percent of the purchase cost plus taxes and customs duties. It's supposed to be a system of control to avoid abuse of the motorcycles which are generally fully depreciated after about three years. CARE's motorcycle asset account is credited and the

GOT receives the taxes from the sales. The auditors agree that the rationale for avoiding abuse may be valid. Nevertheless, from the standpoint of compliance it is essential that formal authorization be obtained from the GOT.

CARE Officials Used Project Vehicles For Non-Project Activities Without Reimbursing A.I.D. For The Costs

A.I.D. regulations require that grantees limit the use of project vehicles to official purposes. A.I.D. is to be reimbursed for any personal use of the vehicles. We found that CARE's staff used official vehicles for all three projects for personal purposes, after working hours, and during weekends. Moreover, maintenance and fuel costs for operating those vehicles during non-duty hours were charged by CARE to the project.

> **Recommendation No. 9: We recommend that OAR/Togo establish a vehicle-use policy in accordance with Agency regulations for all PVO grantees and contractors.**

Based on our analysis of vehicle operating costs, about 10 percent of the vehicle costs in the past were attributed to personal usage. Considering $111,000 in vehicle operation costs over the past 18 months for such items as repair, maintenance and gasoline; we estimated CARE benefitted to the extent of $11,000 from personal use of vehicles under the TRIPS Project. Furthermore, an estimated $25,000 could be saved over the remaining 42-month project duration. By establishing a policy to control the use of project vehicles and reimburse A.I.D. for personal use of vehicles, the savings could be used to further project developmental goals. The establishment of vehicle-use guidelines by OAR/Togo would constitute a control system to assist in the avoidance of this type of abuse of project resources by contractors and PVOs.

MANAGEMENT COMMENTS AND OUR EVALUATION

OAR/Togo generally agreed with the report's findings and recommendations and has already initiated aggressive corrective actions. Based on actions already reported, we are closing recommendations 2.2, 5 and 9 on issuance of the report. The Mission differed with a draft recommendation regarding retroactive recoveries for personal use of project vehicles. They stated that a better resolution of the problem could be achieved by establishing a vehicle policy which would prevent further misuse of official vehicles by PVOs. We accepted the Mission's position which is explained in further detail on page 6 of their Memorandum in Appendix IV. Therefore, the recommendation was modified in this final report.

Based on OAR/Togo's response, we consider all the recommendations as resolved except No. 3, which is addressed to the A.I.D. Office of Financial Management in Washington.

We believe that should all nine audit recommendations be fully implemented, OAR/Togo will have established sound controls to properly account for its resources, and accountability is essential for economic development and continued support from the U.S. taxpayers.

REPORT ON INTERNAL CONTROLS

We have audited OAR/Togo's Private Se.tor Projects (Nos. 693-0224, 693-0226 and 693-0227) for the period ending June 30, 1990 and have issued our report thereon dated February 28, 1991.

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 the three audit objectives and not to provide assurance on the internal control structure.

The management of A.I.D. including OAR/Togo, 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 (GAO) has issued "Standards of 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 (OMB) 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 obtained an understanding of relevant policies and procedures and determined whether they have been placed in operation--and we assessed control risk. In doing this work, 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 design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect OAR/Togo'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.

Audit Objective One

The first audit objective was to gather and verify information concerning the accomplishment of planned outputs under the current TRIPS Project. The sources of this information included OAR/Togo progress reports and interviews with OAR/Togo, implementing PVO and GOT personnel. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3.

We noted one reportable condition:

- OAR/Togo was not preparing site-visit reports.

Audit Objective Two

This objective relates to the OAR's compliance with the policies and procedures for monitoring and accounting for A.I.D. funds under all three projects. In planning and performing our audit of this area, we considered A.I.D. Handbooks 3, 13 and 19.

We noted one reportable condition:

- OAR/Togo did not adequately monitor the charges made to A.I.D. for expenditures incurred under all three projects;

Audit Objective Three

This objective relates to OAR/Togo's assurance that the implementing PVOs had established adequate inventory control systems to account for project commodities under all three projects. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 14.

- The PVOs did not provide final inventory reports under the two completed private sector projects; the Togo Credit Union Development Project #693-0224 and the Zio River Economic Development Project #693-0226;

- Neither of the PVOs conducted annual periodic inventories and submitted the reports to OAR/Togo;

- CARE's inventory system was inadequate and could not fully identify all project commodities such as office furniture.

A material weakness is a reportable condition in which the design or operation of the specified internal control system 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 weaknesses as defined above. However, we believe the reportable conditions described under audit objectives numbered one, two, and three are material weaknesses.

REPORT ON COMPLIANCE

We have audited OAR/Togo's Private Sector Projects (Nos. 693-0224, 693-0226 and 693-0227) 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, grant 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 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 Projects is the overall responsibility of OAR/Togo's management. As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of OAR/Togo contractors, and host-government compliance with certain provisions of Federal laws and 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 the following significant instances of noncompliance.

Except as described, the results of our tests of compliance indicate that, with respect to the items tested, contractors, and the Government of Togo 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

OAR/Togo, PVOs and the Government of Togo had not complied, in all significant respects, with those provisions.

Audit Objective One

The GOT did not establish a risk management (insurance) program to protect credit union member funds under the TRIPS project as they agreed to in a letter which was provided to meet a condition precedent for disbursement as required by Section 4.1(B) of the project agreement (see page 4).

Audit Objective Two

The PVOs were not submitting the monthly Federal Cash Transactions Report (SF-272) to OAR/Togo as required by provisions of the cooperative agreements for all three private sector projects (see page 6).

Audit Objective Three

The PVO (CARE) did not submit to OAR/Togo and the GOT an inventory report on all items of equipment and materials in its custody after completion of the Zio River Project as required by the provisions of the project agreement (see page 12).

The PVO (CARE) exceeded the commodity budget established in their cooperative agreement of the Zio River Project (see page 13).

The PVO (CARE) sold three project vehicles and seven rototillers (farm machinery) which were required to be transferred to the GOT according to the provisions of CARE's cooperative agreement (see page 15). CARE has also established a program to sell motorcycles purchased under the current TRIPS project which are required to be transferred to the GOT according to the provisions of CARE's cooperative agreement.

SCOPE AND METHODOLOGY

Scope

We audited OAR/Togo's Private Sector Projects (Nos. 693-0224, 693-0226 and 693-0227) in accordance with generally accepted government auditing standards. We conducted the audit from June 10 through August 10, 1990 and covered the systems and procedures relating to project inputs financed by A.I.D. from January 1, 1989 (project inception) through June 30, 1990. The audit covered the systems of financial reporting and commodity accountability under TRIPS and the two predecessor projects: the Togo Credit Union Development Project, and the Zio River Economic Development Project as described in audit objectives 2 and 3. As noted below, we conducted our field work in the offices of: OAR/Togo, CARE, CUNA and FUCEC, all of which are located in Lome, Togo. We also conducted site visits to observe project activities and warehoused commodities at Mission Tove and Akepe in Togo.

The audit objectives did not cover the following areas:

The audit did not determine whether the planned outputs of the predecessor projects were accomplished since these were completed projects.

Methodology

The methodology for each audit objective follows.

Audit Objective One

The first audit objective consisted of gathering and verifying information to determine the progress of the current TRIPS Project. We reviewed the project output indicators for both implementing PVOs, including CARE and CUNA. The results are presented in Appendices V and VI. We also reviewed PVO progress reports and Mission implementation reports. Although we held discussions with responsible officials for an update on the project's status and believe this information is correct, we do not attest to the precision of the information presented in this finding.

Audit Objective Two

To accomplish the second audit objective, we (1) examined OAR/T financial reports; (2) reviewed the financial reporting requirements of the PVOs in the Agreements for all three projects; (3) tested the PVOs local cost accounting systems; (4) examined the Financial Status Reports (SF-269) submitted under all three projects; (5) discussed LOC reimbursement procedures for PVOs with FM/CMPD in A.I.D./W; (6) reviewed CARE's contract with A.I.D. to assume the worldwide project portfolio for the insolvent Partner's For Productivity; (7) reviewed the needs of the Central Liquidity Fund; and (8) reviewed CARE's progress in fulfilling its financial commitment to the project.

Audit Objective Three

To accomplish the third objective we determined whether (1) the PVOs had established adequate inventory systems and reported commodity status information to OAR/Togo; (2) commodities were adequately warehoused and physically secured; (3) used on the project which provided the funding unless otherwise authorized; (4) commodity expenditures were within authorized budgets; (5) commodities were disposed of in accordance with provisions of the agreements; and (6) reviewed the control over project vehicles.

UNITED STATES GOVERNMENT

memorandum

DATE: December 21, 1990

REPLY TO ATTN OF: Mark G. Wentling, A.I.D. Representative/Togo-Benin MWentling

SUBJECT: Comments on Draft Audit Report of USAID/Togo's Private Sector Projects, 693-0227, 693-0226 and 693-0224

TO: Paul E. Armstrong, RIG/A/Dakar

I am pleased to acknowledge receipt on November 26 of subject draft audit report and provide below my office's comments on this report. As my office worked closely with your two-person audit team during its six-week stay in Lome, this report offers very few surprises. Our position about audit findings and recommendations contained in this report remains the same as reported to the audit team during our exit briefing on August 10, 1990. We therefore continue to hold to our general agreement with the audit recommendations and pursue actively their resolution.

Since the departure of the audit team on August 11, we have been working closely with the two PVOs, CARE and World Council of Credit Unions (WOCCU), responsible for the execution of the subject projects to resolve to the extent possible all recommendations cited in the audit report. The current status of action on each recommendation is described in the following.

Recommendation No. 1: We recommend that the A.I.D. Representative, Togo, coordinate with the Government and the Credit Union National Association to assist the National Federation of Credit Unions (FUCEC) to implement a risk management insurance program within a specific timeframe.

Status: This was resolved on August 28, 1990, with the written approval of the Minister of Finance of FUCEC's insurance subsidiary, MAFUCECTO.

Comment: As this issue was close to being resolved, and every effort was being made to resolve it, during the audit team's time in Lome, we are surprised that this became such a prominent part of the audit report.

Recommendation No. 2.1: Request CARE to submit line-item-expenses by budget category for project expenditures (outlays) as an attachment to the Financial Status Reports (SF-269's) for the Project Officer review.

On August 14 I requested CARE to provide on a regular basis this budgetary information and CARE replied on September 10 in writing that it had requested CARE/NY to provide henceforth on a quarterly basis the SF-269 reports, as well as all previous quarterly SF-269 reports prepared since the inception of the project. We have received some of these reports from AID/Washington and, accordingly, we are confident that we will continue to receive this financial report as they are submitted quarterly by CARE's Overseas Financial Operations Unit (OFO) in Manila to the appropriate financial management office in AID/W.

Recommendation No. 2.2: Require CARE and CUNA to submit all Federal Cash Transaction Reports since the current project's inception in January 1989 and submit all subsequent reports on a monthly basis.

CARE has already provided us with all back copies of its SF-272 reports and has requested OFO-Manila to provide these on a monthly basis in the future. CUNA/WOCCU has also replied in a like manner to my August 14 request by providing us with all past Federal Cash Transaction and Financial Status Reports. We have no reason to believe that we will not continue to receive from both CARE and WOCCU these reports on a monthly basis.

Recommendation No. 2.3: Require CARE to submit documentation to account for the differences including $65,003 charged to the Zio River Project, and $12,688 charged to the TRIPS Project during the period January through June 1989 and disallow those charges which cannot be supported.

This new recommendation has been communicated to CARE and these charges will either be justified to our satisfaction or disallowed through a reduction this fiscal year in the incremental funding tranche scheduled to be added to CARE's cooperative agreement. We regret that these differences were not pointed out earlier so that they could have been resolved before the receipt of the draft audit report.

Recommendation No. 2.4: Submit documents to the satisfaction of OAR/Togo to show that double billings were not made to the Zio River and the TRIPS Projects during the periods January through June 1989.

This recommendation has also been communicated to CARE and we are again reviewing available records to determine if any double billings were made. If we do find any evidence of such billings, we will charge the CARE account accordingly, either by a direct bill of collection or a reduction in its cooperative agreement grant.

Recommendation No. 3: As this recommendation concerns FM/CMPD/LC, it will not be addressed in these comments.

Recommendation No. 4: Reprogram the initial $250,000 allocated to the Central Liquidity Fund (CLF) and determine whether the $244,000 allocated to the CLF at the project's midpoint will be necessary and, if not, reprogram it for other purposes.

In WOCCU's reply of September 5 to my memo of August 14 on this subject, it fully agreed that a part of the CLF be reprogrammed and is currently undertaking an analysis of past and future expenditures to determine how much CLF funds should be reprogrammed. We will be reviewing WOCCU's proposal in this regard and looking at this issue in depth during our first external evaluation of the TRIPS project (693-0227) in February 1991. We all agree that if CLF funds are not needed they should be reprogrammed and, if reprogramming is not possible, that WOCCU's grant should be reduced accordingly.

Recommendation No. 5: OAR/TOGO requires CARE to submit a financial plan showing the timeframe during which its financial contribution of $500,000 is to be made and expended over the life of the project.

In its September 10 reply to our inquiry about this matter, CARE provided the following schedule for its $500,000 contribution to the TRIPS Project.

Fiscal Year (July-June)		Amount	
1989		$ 44,090	(Actual)
1990		83,948	(Actual)
1991		86,510	(Current Budget)
1992		110,000	
1993		175,452	
	TOTAL	$500,000	

We accept this schedule and we will monitor it closely to insure that these funding levels are budgeted and expended for TRIPS purposes.

Recommendation No. 6: Require CARE to fully develop its system of commodity accountability including the proper identification of all A.I.D. financed commodities and provide an immediate accounting of Project No. 693-0226 commodities to the OAR and GOT; and, obtain from CARE and CUNA an immediate and precise accounting of commodities by project and require them to submit annual inventory reports in the future.

Prior to the departure of the audit team, CARE provided a full inventory of the commodities procured under the Zio River Project (693-0226) and the TRIPS project (693-0227) through July 1990. In its September 10 letter on this subject, CARE stated it would submit to us updated annual inventory reports in March of each year. Given the inventory reports already submitted and CARE's commitment to submitting annual reports, we believe CARE is now in compliance with this recommendation.

WOCCU advised on September 5 that its accountant and inspectors are working on improving its property management system and an initial annual inventory report should be completed by the end of the year. We will continue our pursuit of compliance by FUCEC/WOCCU with this recommendation. We will make a final determination on this and any other outstanding audit matters during our February external evaluation.

Recommendation No. 7: Reduce the authorized funding of CARE's Agreement for the TRIPS Project by the amount of at least $171,000 which represented funding from the predecessor project No. 693-0226 used for the purchase of commodities on the current TRIPS Project No. 693-0227 and reprogram the $171,000 for project purposes; and, retroactively approve or disallow the commodity purchases in excess of budget by $144,319 under the TRIPS Project.

CARE stated in its September 11 letter that it accepts a reduction in its authorized funding level under the TRIPS project to compensate for funding taken from the predecessor project. CARE also proposed that this amount be reprogrammed to expand the capabilities of its TRIPS project training unit, which it considers to be one of the most successful components of the TRIPS project. Again, this issue will be thoroughly examined during the February evaluation and downward adjustment will be made in the CARE grant to cover any funds that cannot be justifiably reprogrammed.

If we cannot find in our files the letter we thought we did to approve purchases in excess of the TRIPS $144,319 commodities budget, I will prepare a letter to retroactively approve commodity purchases up to this amount.

Recommendation No. 8: Require CARE to either obtain and/or submit the reported authorization to sell project assets, or issue a bill of collection to CARE in the amount of the proceeds of the unauthorized asset sales, and require CARE to obtain the OAR's and the host government's approval prior to any sale of project assets not provided for in the cooperative agreements.

This recommendation was not in the draft report left last August by the audit team. We, therefore, have not had the time to pursue sufficiently this matter with CARE. We will request that CARE submit an authorization to sell project assets, but we are doubtful that it can legitimately be made to do so. We do not believe that issuing a bill of collection to CARE for unauthorized assets sold is appropriate because CARE did sell these assets in the interest of good project management, in accordance with long-standing project policies that were well known, and the proceeds were credited to the project and used for replacement of the assets used for project purposes. We therefore believe the problem raised by this recommendation does not reside with poor contacts with my office, poor management or accounting, but in the lack of documented authorization.

We do believe that CARE should provide for our clearance a policy statement for future sales of project-financed commodities and a detailed report for our approval of all previous sales and how the proceeds from these sales were used. If we have any doubts about the correctness of the sales and the use of proceeds, we believe the correct course of action would be to decrease by a corresponding amount the next incremental tranche to the CARE grant. In any event, CARE has already been advised that it must obtain host government and our approval before selling any project assets. We hope RIG/Dakar can agree with the alternate recommendation procedures outlined in the above paragraph.

Recommendation No. 9: Require CARE to compute the cost attributable to personal use of vehicles under the former project No. 693-0226 and the current TRIPS project No. 693-0227 and reimburse A.I.D. for this non-project expenditure, and establish a vehicle-use policy in accordance with Agency regulations for all PVO grantees and contractors.

Immediately following the departure of the audit team, we asked CARE to address this issue. CARE replied that when it took over project implementation from the PFP organization the longstanding and well-known practice of allowing use of project vehicles outside regular office hours was well-established. It therefore saw no need to change this practice and, accordingly, strongly believes the requirement to make retroactive reimbursement of the estimated cost of personal use of project vehicles is not fair. CARE believes it is wrong to impute these charges to personnel, who for the most part are no longer here, who were following accepted practice at the time and did not know that after hours use of project vehicles was not allowed. CARE also believes the 10% calculation made by the audit team for personal use of vehicles to be excessive. Finally, CARE believes that after five years of the Zio River Project and 18 months of the TRIPS Project that it is not right to try to apply such heavy, retroactive penalties.

We tend to agree with CARE that trying to collect on this retroactively is not the appropriate course of action. We believe that the best approach to this issue is to correct the problem by establishing a vehicle policy which prevents the misuse of vehicles. At our urging and with our guidance CARE has adopted, and we have accepted, such a vehicle policy and made it effective as of September 1, 1990. If RIG/Dakar cannot agree with forgiving hard to estimate personal use of project vehicles prior to September 1, we again suggest that an appropriate amount be deducted from CARE's grant.

The above represents my office's comments on the subject draft report. These comments have been shared with the two U.S. PVOs, CARE and WOCCU, concerned and no objections have been raised. Both PVOs continue to work to address more completely all the issues raised in this audit report and we are confident that any outstanding problems relating to this audit will be resolved over the next few months. As previously stated, all these issues will be revisited during our first external evaluation of the project in February 1991.

Please let me know if you find these comments deficient in any way and of any additional information you might need to prepare the final version of this audit report. We would like to close out this audit as soon as possible.

I would again like to express my appreciation of the good work and cooperation demonstrated by your audit team during its long stay in Lome. We enjoyed working with this team and we believe that their efforts have helped us strengthen and improve the management of our project activities.

cc: Dennis Panther, Rural Development Officer
CARE Representative/Lome
WOCCU/CUNA Chief-of-Party/Lome

PLANNED PROJECT OUTPUTS VS. ACCOMPLISHMENTS - YEAR I

CARE/TOGO TRIPS PROJECT #693-0227

OBJECTIVE INDICATOR	OUTPUTS-1989		
	Planned	Actual	Variance
I. PROMOTE SUSTAINABLE PRODUCERS GROUPS			
No. of hectares under intensive cultivation:			
1. - Rainfed	460.0	589.0	129
2. - Irrigated	150.0	115.8	<34.2>
Value of production (US $)	282,000	339,100	57,100
3. - No. of group training sessions	600	711	111
4. - No. agricultural demos	50	45	<5>
5. - No. of farmers members of COOPEC	50	0	<50>
6. - No. of farmers working in groups	400	934	534
II. SPREAD OF PROJECT METHODOLOGY TO OTHERS PRIVATE/PUBLIC SECTOR DEVELOPMENT ORGANIZATIONS			
7. - No. of trainings to disseminate methodology (other than FUCEC)	3	9	6
8. - Specific trainings for FUCEC	5	0	<5>
9. - No. of groups assisted as result of training (outside of Zio)	5	20	15
III. PRIVATIZATION OF ESSENTIAL SERVICES			
10.- No. of rural enterprises assisted	40	108	68
11.- No. of rototillers privatized	5	6	1
12.- No. of farmers with access to privately produced seeds	-	934	934

PLANNED PROJECT OUTPUTS VS. ACCOMPLISHMENTS-YEAR 1

CUNA/TOGO — TRIPS PROJECT #693-0227

OBJECTIVE INDICATOR — OUTPUTS-1989

	Planned	Actual	Variance
1. No. of Credit Unions in Central Region	15	5	<10>
2. No. of Regional Offices Functioning	8	8	0
3. No. of Regional Offices Constructed	5	0	<5>
4. Total No. of Credit Union Members	16, 350	18, 298	1, 948
5. No of Credit Unions Participating in Productive Credit Program	11	20	9
6. No. of New Credit Union Manuals Produced	1	2	1
7. Value of Credit Union Loans Insured	40 million CFA	0	40 million
8. Value of Credit Union Savings Insured	60 million CFA	0	60 million
9. Percent of Credit Union Member Deposits Invested in Central Liquidity Fund	12 %	14.9%	2.9%
10. Percent of Annual Dues Billings Collected From Affiliates	40 %	100%	60%

The audit reviewed 28 of the 31 logical framework output indicators. The actual accomplishments of ten considered to be important are identified above. Of the 28 reviewed, 14 objectives were exceeded, 7 objectives were met, and 7 objectives were not met.

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