

**Audit of
Botswana Junior Secondary Education
Improvement Project No. 633-0229**

Audit Report No. 3-633-91-06
May 31, 1991

The project was making progress in achieving its outputs. However, USAID/Botswana made some questionable payments amounting to \$41,514, and did not comply with A.I.D. regulations in awarding \$85,000 in technical assistance contracts.

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

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May 31, 1991

MEMORANDUM

TO : Howard Handler, Director, USAID/Botswana
FROM : *John J. Burns for*
Toby L. Jarman, RIG/A/Nairobi
SUBJECT: Audit of Botswana Junior Secondary Education Improvement Project No. 633-0229

Enclosed are five copies of the subject report. In preparing this report, we reviewed your comments on the draft report and included them as an appendix to this report. Based on your comments, recommendations Nos. 1.3 and 2 are resolved and we will close them when appropriate actions are completed. Recommendation Nos. 1.1 and 1.2 are closed on issuance of this report. Please respond to this report within 30 days, indicating any actions planned or taken to implement the open recommendations. We appreciate the cooperation and courtesies extended to our staff during the audit.

Background

The Botswana Junior Secondary Education Improvement Project began in April 1985 and is scheduled to end in April 1992. The purpose of the project is to increase the quality and efficiency of the junior secondary education program in Botswana, as well as the Government's ability to manage and support the program. To achieve this purpose, USAID/Botswana provided assistance to the Government of Botswana ("Government") in (1) constructing educational facilities, (2) training teachers and other Ministry of Education staff and (3) developing an instructional curriculum.

The project is administered by USAID/Botswana and implemented by the Government's Ministry of Education. The Mission's Human Resources Development Office has primary responsibility for coordinating project activities with the Ministry of Education and monitoring the project's implementation. Life-of-project funding is \$22.5 million with A.I.D

providing \$16.3 million and the Government \$6.2 million. As of September 30, 1990 \$12.4 million in A.I.D. funds had been obligated and \$10.7 million spent.

Audit Objectives

We audited the Botswana Junior Secondary Education Improvement Project to answer the following audit objectives:

1. What is the progress of the project in achieving its construction, training and curriculum development outputs?
2. Did USAID/Botswana spend A.I.D. funds in accordance with the project grant agreement?
3. Did USAID/Botswana follow A.I.D. procedures in contracting for construction and technical assistance?

In answering these audit objectives, we tested whether USAID/Botswana (1) followed applicable internal control procedures and (2) complied with certain provisions of laws, regulations, and the grant agreement. 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/Botswana 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/Botswana was not following a procedure or not complying with a legal requirement,
- . to identify the causes and effects of the problems, and
- . to make recommendations to correct the conditions and causes of the problems.

Our discussion of the scope and methodology for this audit is in appendix I and our reports on internal controls and compliance are in appendices III and IV respectively.

Audit Findings

What is the progress of the project in achieving its construction, training and curriculum development outputs?

The Botswana Junior Secondary Education Improvement Project (JSEIP) was making progress in meeting its construction, training and curriculum development outputs.

Regarding construction, a curriculum development and evaluation center was completed in 1987 as planned. As a result, seven related education departments that used to be in separate buildings were housed together. Equipment such as computers, projectors, typewriters and furniture were also acquired for the center by the project. In addition to this facility, four out of six planned education centers constructed as of September 1990 were in use at Molopolole, Selebi-Phikwe, Maun and Ghanzi. Also, five houses were completed and these were occupied by the project's Resident Technical Advisors as planned.

Figure 1: The Curriculum Development and Evaluation Center at Gaborone



The building houses seven related departments which were previously housed in different locations.

It was not possible to visit two education centers at Maun and Ghanzi because of their remoteness from Gaborone where the Mission is located. However, by reviewing pertinent documentary evidence at the Mission and interviewing Mission and Government officials, the auditors obtained reasonable assurance that these centers had been completed.

Regarding training, 27 participants, against a target of 18, were sent for long-term training to the United States, thus exceeding the target by 9 participants. This was facilitated by a redesign of the program to allow part of the masters degree course to be taken in the University of Botswana, rather than in the U.S. thereby cutting down on costs. The resulting savings were used to train more participants. Of these participants, 26 completed their studies and as of November 1990 had returned to Botswana and were working in the Ministry of Education as intended. According to the technical assistance contractor's progress reports, about 4,000 person months of short term training had been provided against a target of 2,334 person months -- a fact that was attributable to an under-estimate in the initial target. The short-term training was provided to school headmasters, teachers, curriculum development officers and other Ministry of Education officials.

Regarding curriculum development, the technical assistance contractor's progress reports also indicated that a new instructional curriculum was developed for two subjects as planned, and existing curriculums were revised in four subjects as planned. Also, teachers' guidebooks were developed in four out of six subjects. Furthermore, students' workbooks had been developed for three of these subjects and workbooks for the other three were in process.

Therefore, we concluded that, subject to the limitation of not being able to visit the two education centers mentioned above and relying on a review of records within the Mission and discussions with Mission and Government officials, the project was making progress in meeting its outputs.

Did USAID/Botswana spend A.I.D. funds in accordance with the project grant agreement?

For the items tested, USAID/Botswana spent A.I.D. funds in accordance with the terms of the grant agreement except for vehicle maintenance and travel costs that should have been made by the Government.

Review of the disbursement records and discussion with Mission and contractor officials showed that USAID/Botswana spent funds in accordance with the grant agreement on various activities such as technical assistance, construction, commodities and long-term training.

However, USAID/Botswana made questionable payments for motor vehicle maintenance and travel costs that should have been paid by the Government under the terms of the grant agreement.

**USAID/Botswana Made Questionable Payments
for Vehicle Maintenance and Travel**

The project agreement required the Government of Botswana to pay for vehicle maintenance and travel of participant trainees. However, in some cases, USAID/Botswana, rather than the Government, paid for these items. This occurred because USAID/Botswana did not have a system to enforce the terms of the grant agreement. As a result, USAID/Botswana made questionable payments of \$41,514.

Recommendation No. 1: We recommend that the Director, USAID/Botswana:

- 1.1 determine the allowability of \$34,508 and \$7,006 for motor vehicle maintenance and travel costs, respectively, which were paid by the Mission instead of the Government;**
- 1.2 establish procedures to ensure that the Government of Botswana develops a plan to maintain all project funded vehicles or, if necessary, amend the terms of the grant agreement to allow the Mission to maintain the vehicles; and**
- 1.3 establish a system to ensure that project officers and the controller verify and document the accuracy, the allowability and reasonableness of payments made under the project.**

Annex I, Article II of the project agreement required the Government of Botswana to contribute \$6.2 million in cash and in-kind contributions towards project activities. Under these provisions, the Government was required to assume all costs relating to vehicle maintenance and travel for training participants. This amount included \$814,000 budgeted for vehicle maintenance and \$1,240,000 for trainees' salaries and travel costs.

During fiscal year 1987, USAID/Botswana purchased three vehicles for the project at a cost of \$53,735 which according to the terms of the grant agreement were the responsibility of the Government to maintain. However, our audit found that between October 1987 and November 1990 USAID/Botswana paid to maintain these vehicles. Furthermore, \$60,000 was committed by USAID/Botswana in June and July 1990 for the purchase of three

additional vehicles, which, according to the grant agreement, the Government was supposed to maintain after their arrival.

Also, USAID/Botswana made three questionable payments for per-diem and accommodation for 39 participant trainees between September 1986 and June 1988, which, according to the grant agreement, was the responsibility of the Government.

... USAID/Botswana did not have a system to enforce the terms of the grant agreement.

The above problems occurred because, although the provisions of the grant agreement were adequate regarding who was responsible for vehicle maintenance and travel costs, USAID/Botswana did not have a system to enforce the terms of the grant agreement. This lack of a monitoring system to ensure that the Government complied with the requirement to maintain vehicles was evident since the Mission allowed this problem to continue for an extended period. At the time of our audit in November 1990 -- more than three years after the Mission began maintaining the project vehicles -- the Mission was still maintaining the vehicles because the Government was not carrying out this responsibility as required in the grant agreement.

In addition, the Mission did not take any action during this period to determine whether the Government was able to maintain the vehicles and amend the terms of the grant agreement to allow otherwise if they found that the Government was unable to do so.

The questionable payments for travel and related costs made for participant trainees occurred because the Mission did not have a system to ensure that project officers and the controller adequately reviewed -- and documented their review of -- payments made for various items to verify that the amounts were correctly paid according to the provisions of the grant agreement.

As a result of the foregoing, the Mission made questionable payments for vehicle maintenance and travel costs for participants amounting to \$41,514 which were the responsibility of the Government as follows:

- \$34,508 was paid by the Mission to maintain three vehicles; and
- \$7,006 was paid by the Mission in per-diem and related costs for thirty nine participant trainees.

If the problem with vehicle maintenance is not corrected, in addition to the maintenance of the three vehicles discussed above, there is no assurance that the Government would maintain three additional vehicles, for which \$60,000 was budgeted, that were on order as of November 16, 1990. Likewise, it is possible that the Mission could make additional erroneous payments for travel costs for participant trainees if controls over the processing and payment of such costs are not strengthened.

Based on the above, we concluded that the Mission needed to establish procedures to ensure that (1) the Government developed a plan to maintain all project funded vehicles before additional vehicles were released, or amend the terms of the grant agreement if the Mission determines that the Government is not capable of doing so, and (2) both project officers and the controller review and document the accuracy, the allowability and reasonableness of payments made under the project. A system whereby the controller spot checks certain items before payments are made and documents which items were checked would provide an added means of needed control. Further, the Mission needs to determine the allowability of \$41,514 paid by the Mission for vehicle maintenance and travel for participant trainees.

Management Comments and Our Evaluation

In responding to the draft audit report, the Mission agreed that vehicle maintenance costs were the Government's responsibility under the terms of the grant agreement. However, the Mission stated that they had informally agreed to maintain the vehicles to avoid unnecessary down-time when the Government failed to carry out its responsibility. They added that they had formalized, through a Project Implementation Letter dated December 6, 1990, their previously agreed upon understanding to maintain the vehicles.

Regarding the payment of participants' travel costs, the Mission also agreed that these were the government's responsibility under the terms of the grant agreement. However, the Mission stated that as in the case of the motor vehicle expenses, it had informally agreed to incur the expenses because the training sessions, comprising of attendance by teachers in a workshop in Botswana and another one in Lesotho, had fulfilled one of the project objectives and would not have taken place without receiving Mission support.

Regarding the recommendation to establish a system whereby the project officers and the controller verify and document the accuracy, allowability and reasonableness of payments, Mission management stated that a Mission Order had been drafted, redefining the responsibilities of project officers and the controller's office for the purpose of strengthening internal controls to better assure accuracy, allowability and reasonableness of payments.

RIG/A/N considers Recommendation Nos. 1.1 and 1.2 closed upon issuance of the report,

based on (i) the Mission's determination that the amount of \$41,514 is allowable and (ii) the issuance of the PIL amending the terms of the grant agreement to allow the mission to maintain project vehicles.

RIG/A/N considers Recommendation No. 1.3 resolved. The recommendation will be closed when we receive a copy of the Mission Order establishing procedures to ensure that project officers and the controller verify and document the accuracy, the allowability and reasonableness of payments made under the project.

Did USAID/Botswana follow A.I.D. procedures in contracting for construction and technical assistance?

For the items tested, USAID/Botswana followed A.I.D. procedures in contracting for construction. However, the Mission did not comply with A.I.D. competitive bidding procedures in awarding five out of eight technical assistance contracts.

Regarding construction, the Fixed Amount Reimbursement (FAR) method was used to finance six construction contracts totalling \$1,923,700. The conditions cited by A.I.D. Handbook 3, Chapter 3, Appendix 3J were satisfied in the award of the six construction contracts. These required the individual construction elements to be (1) low cost and short-term, (2) self-sustaining and useful in their own right, and (3) physically separate from each other. In addition, the Government of Botswana was required to have sufficient capability and resources to contract, pay the contractors, and receive reimbursement from A.I.D. after all construction was completed. The Government of Botswana was responsible for awarding the contracts. USAID/Botswana's role was to concur on the contractors selected by the Government and monitor overall performance.

Regarding technical assistance, while USAID/Botswana complied with A.I.D. regulations in competitively awarding three contracts totalling \$147,000, we found that five other contracts totalling \$85,000 did not comply with A.I.D. competitive bidding procedures.

USAID/Botswana Did Not Comply with A.I.D. Competitive Bidding Procedures in the Award of Some Technical Assistance Contracts

A.I.D. policy is to solicit offers from as many vendors as practicable and provide justification when awards are made using less than full and open competition. However, for five contracts there was no evidence that USAID/Botswana solicited offers from various vendors, neither were there any explanations why this was not done. This occurred because there was no system to ensure that competition requirements were followed. As a result, we could not

determine the reasonableness of the \$85,000 paid under these contracts.

Recommendation No. 2: We recommend that the Director, USAID/Botswana establish a system to ensure that offers are solicited from as many bidders as practicable and that the project files are documented whenever this is not done.

A.I.D. Acquisition Regulations (AIDAR), Subpart 706.3 allows for contracting by other than full and open competition for contracts not exceeding \$100,000. However, when this is done, offers must be requested from as many sources as practicable. Also, the contract files must include an appropriate justification containing sufficient facts and a rationale to justify such exceptional procurement.

The auditors reviewed eight technical assistance contracts awarded by USAID/Botswana. For five of the contracts (three for internal evaluations and two for procuring the services of writers and editors), there was no evidence that offers were solicited from various vendors. Also no justification for the use of less than full and open competition was given.

The above problem occurred because the Mission did not have a system to ensure that the competition requirements contained in the AIDAR were followed. Mission officials stated that all five contracts were negotiated between 1987 and 1988 which was prior to the arrival of current Mission management who began arriving in 1989. Nevertheless, at the time of the audit, current Mission management had neither reviewed its procedures regarding the award of technical assistance contracts nor established a system to ensure competition requirements were followed. They were not aware of the problems identified with these five contracts until they were brought to their attention during the audit in September 1990.

... if a system is not established to ensure enforcement of A.I.D. competition requirements, some vendors could be given preferential treatment in future contract awards.

As a result, we could not determine the reasonableness of \$85,000 paid under the five contracts. Moreover, if a system is not established to ensure enforcement of AID competition requirements, some vendors could be given preferential treatment in future contract awards.

Based on the above, we concluded that the Mission needed to establish a system to ensure that the provisions of A.I.D. acquisition regulations were followed when awarding contracts.

Mission Comments and Our Evaluation

In responding to the draft audit report, the Mission agreed with the finding and recommendation. They stated that since the arrival of the current Executive Officer in January 1990, all procurement and contracting has been in accordance with A.I.D. procurement regulations. They added that a new policy on procurement will be incorporated in the Mission Operating Manual to ensure that the pertinent provisions of the Federal Acquisition Regulations regarding full and open competition are followed.

Based on the above, RIG/A/N considers Recommendation No. 2 resolved. The recommendation will be closed when the Mission submits documentary evidence showing that the new policy on contracting has been established.

**SCOPE AND
METHODOLOGY**

Scope

We audited the Botswana Junior Secondary Education Improvement Project in accordance with generally accepted government auditing standards. We conducted the audit from September 12 through November 16, 1990 and covered the systems and procedures relating to inputs financed by A.I.D. from April 1985 through November 16, 1990.

For Audit Objective One, we reviewed the progress of the project in achieving its construction, training and curriculum development outputs. For Audit Objective Two, we examined disbursements amounting to \$1,700,345 which represented 16 per cent of project expenditures. For Audit Objective Three, we reviewed six construction contracts valued at \$1,923,700, representing all of the construction contracts awarded under this project. We did not determine whether the Mission was following the new A.I.D. host country contracting procedures issued by AID/W in June 1990 because the contracts were awarded before these procedures went into effect. We also reviewed eight technical assistance contracts for project writers, editors and evaluators valued at \$232,000 or 81 percent of the total of \$285,220 in technical assistance contracts awarded by USAID/Botswana.

We conducted our fieldwork in the offices of USAID/Botswana and the Government of Botswana. Also, we visited four project sites--two in Gaborone, one in Molopolole and one in Selebi-Phikwe--to physically inspect curriculum development and evaluation center, staff houses and education centers. However, the scope of the audit did not include visits to two education centers at Maun and Ghanzi because of their remoteness from Gaborone where the Mission is located.

The scope of our audit did not include a review of the award of a contract under this project for a long-term technical assistance with Florida State University, valued at \$7.5 million, because the records were located in the United States.

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 project in achieving its construction, training and curriculum development outputs. We interviewed officials representing the Mission, Contractor and Government of Botswana. We also made site visits to inspect facilities at Gaborone, Molopolole, and Selebi-Phikwe. In addition, we reviewed the grant agreement, project paper, project implementation letters, project implementation orders, trip reports, progress reports and project evaluation reports.

Audit Objective Two

To accomplish the second objective, we determined whether (1) the grant agreement specified the costs to be paid by A.I.D. and costs to be paid by the Government; (2) USAID/Botswana paid only costs which were its responsibility; and (3) the Mission had a system in place to ensure that the Government paid for those costs for which it was responsible. We obtained an understanding of the Mission's internal control environment for this objective through interviews with responsible Mission officials and by documenting the control system. We also reviewed the Mission's latest internal control assessment. We examined documentation within the Mission such as invoices, payment vouchers, receiving reports, and engineer's certifications for expenditures amounting to \$1,700,345 (16 percent of project expenditures) to test their compliance with the terms of the grant agreement. We selected a judgmental sample of payments to include all those relating to construction contracts, a representative number of technical assistance contracts and other payments covering various other project costs. However, for \$47,374 of this amount, we reviewed the payment vouchers but not the documents supporting these vouchers, because this documentation was maintained at the contractor's offices in Washington, D.C.

Audit Objective Three

To accomplish the third objective, we determined whether USAID/Botswana (1) considered the costs, type of construction elements and the Government's capability and resources before using the fixed amount reimbursement method to finance the construction contracts; (2) followed proper competitive procedures in awarding technical assistance contracts, and (3) prepared justifications and properly documented the files when less than full and open

competition was used. We also obtained an understanding of the Mission's internal control system with regard to construction and technical assistance contracts, and reviewed documents supporting the award of six construction contracts valued at \$1,923,700. We also reviewed eight contract files totalling \$232,000 or 81 per cent of the total \$285,220 spent for project writers, editors and evaluators. We then discussed these contracts with responsible USAID/Botswana officials.

UNITED STATES GOVERNMENT

memorandum

DATE: April 8, 1991

TO: *H-211*
 HONORABLE MEMBERS OF THE HOUSE OF REPRESENTATIVES

SUBJECT: Audit of Botswana Junior Secondary Educational Improvement,
 Project No. 633-0229

TO: Mr. Toby L. Jarran, RIG/A/N

The Mission has reviewed the draft audit report on the Botswana Junior Secondary Educational Improvement Project. The following comments are provided to address recommendation No. 1 pertaining to questionable payments made for vehicle maintenance and travel.

Project Implementation Letter No. 29 was issued on December 6, 1990 to formalize USAID's authorization for the utilization of project funds to finance fuel and vehicle maintenance for project vehicles. The PIL earmarked and committed \$20,000 of project funds to finance these costs. Previous to the issuance of this PIL, the Mission had informally agreed to utilize funds from the JSEIP Project to fund the vehicle maintenance and fuel costs in order to avoid unnecessary vehicle downtime. PIL 29 now provides the authority for the Mission to fund from the project the maintenance of the vehicles. A copy of PIL NO. 29 is attached.

Concerning the questionable payment in the amount of \$7,006 for per diem costs for 39 teacher trainees, funding was committed to finance the related per diem costs for 14 teachers attending an eight day workshop held at the Lesotho Teacher Training College in Lesotho. In addition, funding was committed for per diem costs of 25 teachers who attended a training orientation session at the University of Botswana.

The attendance of the teachers at the workshop and training session fulfilled one of the project objectives which was to improve the teacher training component of the system. The Ministry of Education did pay for all other related travel costs.

Without the support of the Mission to fund the related per diem costs, it would not have been possible for the teachers to have attended the Research Symposium in Lesotho nor the workshop at the University of Botswana. The Mission considered the training essential and since the GOB did finance the other travel costs the Mission agreed to use project funds to cover the participants subsistence allowance. It would have been counter-productive to cancel the training.

We recognise that, in the execution of the implementing documents to commit the teacher training per diem costs and vehicle maintenance costs, the Mission should have issued PIL'S to establish the authority for use of project funds. Nonetheless, the decision to use project funds for these purposes was taken after due consideration by Mission personnel of the needs of the project.

Based on the issuance of the PIL to authorize the continuation of payment for the vehicle maintenance and justification for funding of the per diem costs for the teachers to attend the teachers symposium and workshop, recommendations 1.1 and 1.2 should be considered resolved.

Recommendation No. 1.3 calls for the establishment of a system to ensure that project officers and the controller verify and document the accuracy, the allowability and reasonableness of payments made under the project. The Mission is currently utilizing the following procedure which is being formalized in a Mission Order currently in draft for the administrative approval of vouchers. The Mission Order requires that the project officer administratively approve each project voucher in order to prevent errors in making project payments. The project officer's examination is normally limited to the documentation available and personal knowledge of the services performed. Subject to the Project Officer's administrative approval the Controller's Office is responsible for reviewing the documentation for accounting accuracy. Prior to processing payments, the Project Accountant assures that claimed costs are allowable and that funds are available. Additionally, the voucher examiner is responsible for performing a financial review to assure mathematical accuracy and that proper fund citations appear on the voucher. A copy of the Mission Order on administrative approval of vouchers will be provided once issued in final.

With the above mentioned internal controls in place, the Mission administrative approval and payment system has been significantly strengthened to better assure accuracy, allowability and reasonableness of payments. On this basis, recommendation 1.3 should be considered resolved.

The following comments relate to recommendation No. 2 pertaining to the technical assistance contracts:

Since the arrival of the current Executive Officer in January 1990, all procurements and contracting instruments have been in accordance with AID procurement regulations, as determined by an evaluation of the USAID/Botswana contracting system under the auspices of the Procurement Executive in October 1990. A policy on procurement is in the process of being incorporated in the Mission Operating Manual to ensure that the pertinent provisions of the Federal Acquisition Regulations are followed regarding full and open competition. Recommendation 2 should be considered resolved.

Attachment: a/s

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls for the audit objectives.

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we plan and perform the audit work 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 audit objectives and not to provide assurance on USAID/Botswana's overall internal control structure.

For the purpose of this report, we have classified significant internal control policies and procedures applicable to the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation -- and we assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each objective.

General Background on Internal Controls

The management of A.I.D., including USAID/Botswana, 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 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 (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) effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions of Audit Objective One

The first objective consisted of gathering and verifying information relating to the progress of the project. For the purpose of this report, we have classified the relevant policies and procedures into five categories: project management structure, construction monitoring, site visits, project evaluation, and project implementation. For this objective, there were no reportable conditions.

Conclusions for Audit Objective Two

This objective relates to the procedures used by the Mission in spending A.I.D.'s funds. In planning and performing our audit, we considered the requirements of Annex I, Article II

of the grant agreement regarding contributions of the parties--USAID/Botswana and the Government--to the project. For the purpose of this report, we classified the relevant policies and procedures into two categories--the project budget process and the disbursement process. We reviewed the controls relating to the two processes and found that, with respect to the disbursement process, these controls had not been properly implemented. Therefore, we expanded our tests to review all disbursements made for construction contracts.

Conclusions for Audit Objective Three

This objective relates to the procedures used by USAID/Botswana in contracting for construction and technical assistance. We considered the conditions cited in A.I.D. Handbook 3, Chapter 3 Appendix 3J for using the Fixed Amount Reimbursement (FAR) method of contracting for construction. We also considered the requirements of A.I.D. Acquisition Regulations Subpart 706.3 regarding the award of technical assistance contracts. For the purpose of this report, we classified the relevant policies and procedures into three categories: contract type selection process, contractor selection process and contract award process. We reviewed the Mission's controls relating to the three processes. Our assessment showed that with respect to the contract award process, the controls were not designed and implemented properly. Therefore, we expanded our tests on the contract award procedures. This resulted in a review of eight contracts totalling \$232,000 or 81 percent by value of all contracts awarded to project writers, editors and evaluators.

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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 and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions under audit objectives two and three are material weaknesses.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Botswana's compliance with applicable laws and regulations.

Scope of our Compliance Assessment

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.

We tested USAID/Botswana's compliance with the terms of the grant agreement and A.I.D. Acquisition Regulations as they could affect our audit objectives. However, our objective was not to provide an opinion on USAID/Botswana's compliance with such provisions.

General Background on Compliance

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 distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behaviour.

Compliance with the grant agreement and the provisions of the A.I.D. Acquisition Regulations is the overall responsibility of USAID/Botswana's management. However, as part of fairly, objectively and reliably answering the audit objectives, we performed tests of USAID/Botswana's compliance with them.

Conclusions on Compliance

The results of our tests of compliance indicated that, with respect to the items tested, USAID/Botswana complied with the requirements of the grant agreement and the A.I.D. Acquisition Regulations except in two instances:

- . USAID/Botswana did not ensure that the Government paid for certain items, namely vehicle maintenance and travel costs, as required in the Annex 1, Article II, Section 7.B.1 of the project agreement (see page 7).
- . USAID/Botswana did not ensure that five contracts totalling \$85,000 were awarded in accordance with competitive bidding procedures required by A.I.D. Acquisition Regulations, Subpart 706.3 (see page 9).

APPENDIX V

REPORT DISTRIBUTION

American Ambassador to Botswana	1
Director, USAID/Botswana	5
AA/AFR	1
AFR/SA/BLS	1
AFR/CONT	1
AA/XA	2
XA/PR	1
AA/LEG	1
GC	1
AA/MS	2
PFM/FM/FS	2
SAA/S&T	1
PPC/CDIE	3
MS/MO	1
REDSO/ESA	1
REDSO/RFMC	1
REDSO/Library	1
IG	1
AIG/A	1
D/AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM	12
AIG/I	1
RIG/I/N	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/M	1
RIG/A/S	1
RIG/A/T	1