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AUDIT OF LESOTHO BASIC AND NON-FORMAL EDUCATION SYSTEMS (BANFES) PROJECT NO. 632-0222

Audit Report No. 3-632-91-07
June 21, 1991

Education

The audit showed that all participant trainees returned to Lesotho following completion of their training. However, USAID/Lesotho needed to develop more effective internal control systems for:

. accounting and controlling the storage and distribution of project-supplied instructional materials;

. controlling project-funded vehicle utilization;

. ensuring that project-funded participant trainees fulfilled the terms of their training agreements; and

. allocating project funding to meet Mission operating expenses.

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

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09675

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

June 21, 1991

MEMORANDUM

TO : F. Gary Towery, Director, USAID/Lesotho

FROM : Toby L. Jarman, RIG/A/Nairobi

SUBJECT : Audit of the Lesotho Basic And Non-Formal Education Systems (BANFES) Project No. 632-0222

Enclosed are five copies of our audit report on Lesotho Basic And Non-Formal Education Systems Project, Report No. 3-632-91-07.

We reviewed your comments on the draft report and summarized them after each finding and also included them as an appendix to this report. We have also revised our final report in considering your comments. Based on the actions taken by the Mission, Recommendation 1 is closed and Recommendation 3 is resolved. Recommendation No. 2 is unresolved and action is required by the Regional Contracting Officer to close this recommendation. The remaining two recommendations are unresolved. Recommendations will be closed when appropriate actions are completed. Please advise me within 30 days of any actions taken or planned to implement the recommendations.

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

UNITED STATES OF AMERICA

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June 21, 1991

MEMORANDUM

TO : Michael Kenyon, Regional Contracting Officer, USAID/Swaziland

John J Burns for

FROM : Toby L. Jarman, RIG/A/Nairobi

SUBJECT : Audit of Lesotho Basic and Non-Formal Education Systems (BANFES) Project No. 632-0222

Enclosed is a copy of our audit report on the Lesotho Basic and Non-Formal Education Systems Project, Report No. 3-632-91-07.

We have reviewed your comments on the draft audit finding and summarized your comments after the finding on project vehicles. Recommendation No. 2 is considered unresolved. Please respond to this report within 30 days and provide the information cited on page 14 of this report as a basis for closing this recommendation.

EXECUTIVE SUMMARY

The Basic And Non-Formal Education Systems Project began in July 1984 and was scheduled to end April 30, 1991. The purpose of the project was to strengthen the institutional capacity of the Lesotho Ministry of Education to efficiently provide an effective education system that is relevant to Lesotho's developmental needs. The project was designed to:

- strengthen the Ministry's capability to administer and manage the education system;
- improve the administration of the National Teacher Training College;
- revise the primary school curriculum; and
- support non-formal education in rural areas.

To achieve these objectives, A.I.D. authorized approximately $25.75 million in life-of-project funding, of which about $22.1 million had been expended as of September 30, 1990, from Development Assistance Program appropriations. The Government of Lesotho agreed to provide resources equivalent to $5.52 million.

Between July 17 and October 24, 1990, we audited the project in accordance with generally accepted government auditing standards. The audit objectives can be found on page 2 and the scope and methodology on page 28.

We found that:

-- USAID/Lesotho did not follow A.I.D. procedures to ensure that A.I.D.-funded project instructional materials were accounted for, controlled, and used in the project (see page 5).

-- USAID/Lesotho did not follow A.I.D. procedures to ensure that project-funded vehicles were controlled and used for project purposes (see page 11).

-- USAID/Lesotho did not follow A.I.D. procedures to ensure that participants fulfilled the terms of their training agreements by returning to work for the benefit of the project (see page 15).

-- USAID/Lesotho did not always follow A.I.D. procedures for allocating administrative support costs to the project (see page 18).

The report contains four recommendations for the Director, USAID/Lesotho to improve the Mission's management and oversight over project-funded instructional materials, participant trainees, and project fund allocations. The report contains one recommendation for the Regional Contracting Officer to determine the allowability and the amount that should be recovered from the technical assistance contractor. The report also presents our reports on internal controls (see page 22) and compliance (see page 25).

The Mission reviewed the draft audit report and generally agreed to implement the recommendations, except for the recommendation relating to participant trainees. The Mission felt that although seven out of 32 participant trainees did not comply with the terms of their service agreements, the project had a high success rate and any remedial action was beyond USAID/Lesotho's control. However, we believe that USAID/Lesotho should establish a system and procedures to better monitor returned participant status. Management comments, which can be found in their entirety as Appendix II, were considered in preparing the final report.

The Regional Contracting Officer reviewed the draft audit finding and determined that the technical assistance contractor was negligent in its custody of two project-funded vehicles. The Contracting Officer stated that a Bill for Collection would be arranged to be issued to the contractor.

Office of the Inspector General

Office of the Inspector General
June 21, 1991

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INTRODUCTION

Background

The goal of the Lesotho Basic and Non-Formal Education Systems (BANFES) Project was to promote rural-based income and employment and improve the quality of rural life through education. The project's purpose was to strengthen the institutional capacity of the Lesotho Ministry of Education (MOE) to efficiently provide an effective education system that is relevant to Lesotho's developmental needs.

The project was designed to assist the Ministry to improve its capability to provide an effective and relevant education system by:

- strengthening the Ministry's capability to administer and manage the education system;
- improving the administration of the National Teacher Training College;
- revising the primary school curriculum; and
- supporting non-formal education in rural areas.

The project was initiated on July 26, 1984, and was to end April 30, 1991. The Mission was considering extending selected portions of the project to bridge the gap between BANFES and the Primary Education Program undergoing design at the time of the audit. Under terms of the project agreement between USAID/Lesotho and the Government of Lesotho, the Government of Lesotho had overall responsibility for administering the project. A technical assistance contractor, the Academy for Educational Development (AED), was to assist the MOE in implementing project activities. The contractor was also responsible for procurement of most project commodities. USAID/Lesotho was responsible for monitoring project implementation to ensure compliance with the project agreement and effective and efficient use of A.I.D. funds.

USAID/Lesotho provided, and the technical assistance contractor spent, about $827,000 for the purchase of instructional materials to be disseminated to institutions and schools in

Lesotho. Technical assistance personnel generated an array of instructional materials in the areas of agriculture, arts and crafts, small business, social studies, and mathematic aids. In addition, the project purchased 27 vehicles for approximately $311,000.

A.I.D. assisted the Government of Lesotho to address and implement programs to meet some of its most critical needs and problems including improving the Ministry's staff training system. According to the contractor managing the participant training element, it cost A.I.D. about $977,500 to train 32 Ministry personnel.

Total planned project inputs were $31.27 million, with A.I.D. providing $25.75 million from Development Assistance Program appropriations, and the Government of Lesotho providing resources equivalent to $5.52 million. As of September 30, 1990, A.I.D. funds totalling about $24.5 million had been committed and about $22.1 million had been expended.

Audit Objectives

The Office of the Regional Inspector General for Audit/Nairobi audited the Basic and Non-Formal Education Systems Project to answer the following audit objectives:

1. Did USAID/Lesotho follow A.I.D. procedures to ensure that A.I.D.-funded project instructional materials were accounted for, controlled, and used in the project?

2. Did USAID/Lesotho follow A.I.D. procedures to ensure that project-funded vehicles were controlled and used for project purposes?

3. Did USAID/Lesotho follow A.I.D. procedures to ensure that A.I.D.-funded participants fulfilled the terms of their training agreements by returning to work for the benefit of the project?

4. Did USAID/Lesotho follow A.I.D. procedures for allocating administrative support costs to the project?

In answering these audit objectives, we tested whether USAID/Lesotho (1) followed applicable internal control procedures and (2) complied with certain provisions of laws. Our tests were sufficient to provide reasonable -- but not absolute -- assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. We did not continue testing when we found that, for the items tested, USAID/Lesotho 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/Lesotho 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.

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

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REPORT OF AUDIT FINDINGS

Did USAID/Lesotho follow A.I.D. procedures to ensure that A.I.D.-funded project instructional materials were accounted for, controlled, and used in the project?

For the items tested, USAID/Lesotho did not follow A.I.D. procedures to ensure that A.I.D.-funded project instructional materials were accounted for, controlled, and used in the project.

USAID/Lesotho did not have effective inventory and distribution accounting systems to ensure that instructional materials were accounted for, controlled, and used as evidenced by:

-- the absence of adequate inventory records for instructional materials;

-- improperly stored instructional materials; and

-- undistributed instructional materials.

Problems with commodity management are discussed below.

Instructional Materials Were Not
Adequately Accounted For And Controlled

A.I.D. is responsible for ensuring that A.I.D.-financed commodities are properly accounted for and effectively used in the project. However, effective commodity control systems were not in place to ensure that instructional materials had been properly accounted for and stored in the warehouses, and had been fully distributed to institutions and schools in Lesotho. This occurred primarily because USAID/Lesotho did not provide adequate oversight to ensure that a contractor commodity control system was in place which could effectively account for the storage and utilization of instructional materials. As a result, USAID/Lesotho can not be fully assured that all instructional materials, worth approximately

$827,000, were delivered by the suppliers, properly stored and distributed to the institutions and primary schools in Lesotho.

<u>Recommendation No. 1</u>: We recommend the Director, USAID/Lesotho not procure any more instructional materials using project funds until a commodity control system is in place and operating effectively to give reasonable assurance that A.I.D.-funded project instructional materials are protected from loss or damage, and used for project purposes.

A.I.D. Handbook 15, Section 10A. states that it is A.I.D. policy to ensure that A.I.D.-financed commodities are properly accounted for and effectively used in the project. Section 10D. places upon the USAID the responsibility to ensure that the Borrower/Grantee system is operating effectively by monitoring the system in a manner appropriate to local conditions. Also, the Federal Managers' Financial Integrity Act of 1982 (P.L. 97-255) mandates that each executive agency's internal controls provide reasonable assurance that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

A.I.D. provided about $827,000 for instructional materials to be distributed to target schools. These materials, purchased through the project's technical services contractor, included such items as various teaching and mathematical aids including language syllabi, abacuses, balances, and meter sticks. The technical services contractor was to manage the distribution of such items to target schools.

USAID/Lesotho did not have an adequate system in place to track and thus identify the location of instructional materials to be distributed to target schools. Project management could not ensure that materials were properly accounted for, controlled, and used because:

-- storage facilities did not keep inventory records showing the number of items received at the sites. Materials ordered were not compared to items received to ensure that all needed, and ordered, materials were actually available for distribution.

-- materials were improperly stored. Materials at two sites inspected during the audit were scattered, unorganized, broken and damaged. Further, materials scheduled for distribution to schools earlier in the project were still present at the project storage warehouses[1].

-- the project's technical assistance contractor, which was charged with the responsibility to distribute the instructional materials to target schools, did not maintain adequate distribution records. For example, contractor distribution sheets could not identify the number of syllabi sent to each school, although according to the contractor, these materials had been packaged and disbursed from the project warehouses. Distribution sheets were unavailable for over 48 per cent of items tested. Contractor officials stated that the items had been distributed but could not identify to which school or other location they had been taken.

These commodity control problems arose because the Mission did not monitor project commodity control systems as called for by A.I.D. policies and procedures.

The Mission relied upon the project's technical assistance contractor to maintain an effective commodity control system. The Mission received periodic contractor progress reports which stated that an inventory control system was under development. The reports provided no additional explanation of the system or its operation. The reports did not say when the system would be established and operating. As revealed during the audit, the system was never fully established.

Mission officials did not conduct site visits to project warehouses to verify that a commodity control system was in place, and that A.I.D-funded instructional materials were protected from loss or damage, and effectively distributed. The Mission project officer stated that there was no time to perform site visits because of a large management portfolio of projects and lack of trained staff to assist the project officer in monitoring project performance. Testing of these statements was beyond the scope of the audit as verification would involve extensive staffing and training analyses.

It was difficult to determine the extent to which instructional materials were received and used by recipients. However, we were provided two internal evaluations by the technical assistance contractor that showed that not all teachers received and used the instructional

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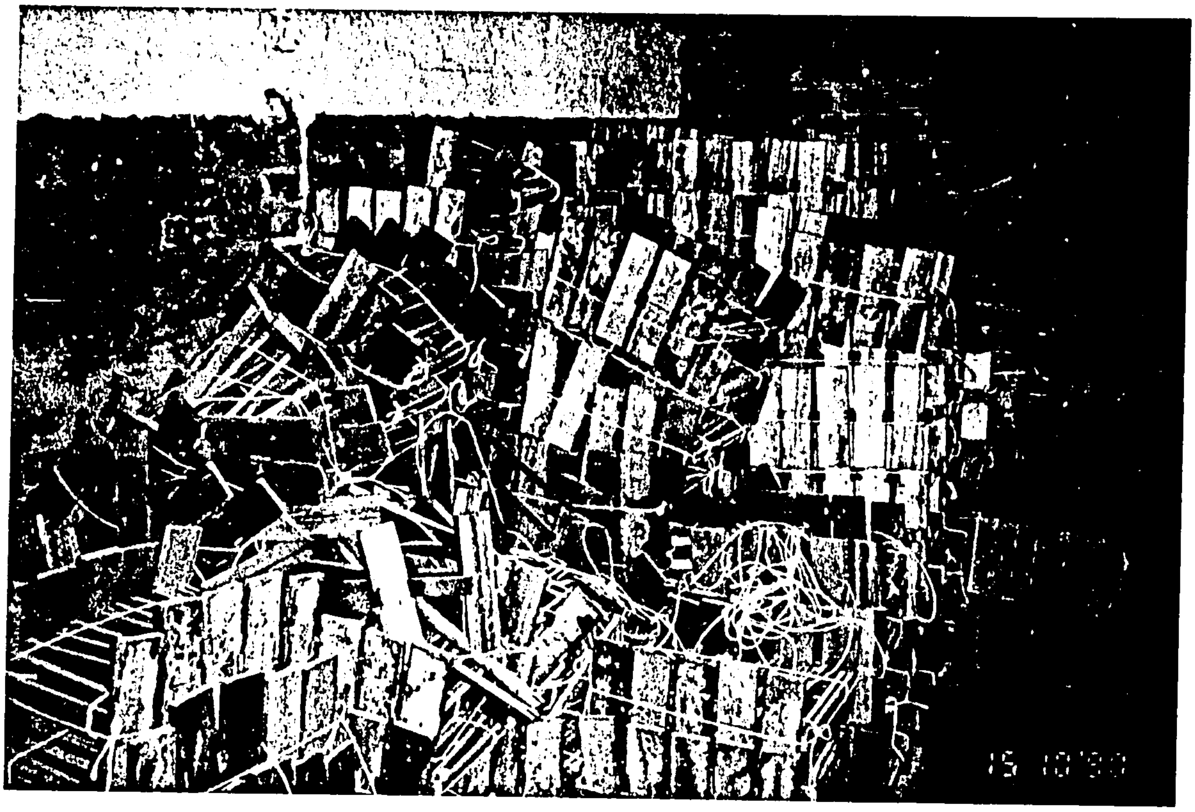
1 The project officer visited the sites shortly after the audit team. The project officer confirmed the auditors' observations. The official's description of the condition at the sites is contained in Exhibit I.

materials disseminated as discussed below.

The first evaluation was performed in 1989 and collected data from 340 primary teachers in 113 schools on nine instructional materials. The percentage of teachers who reported receiving items ranged from a high of 93 percent for a children's newspaper to a low of 45 percent for basic education supplementary materials. A more limited evaluation was performed in 1990 and collected data from 100 teachers in 55 primary schools on five types of instructional materials. The percentage of teachers who reported receiving items ranged from a high of 85 percent for math aids to a low of 67 percent for a skills checklist. Unless teachers received the items, they did not have an opportunity to use them in their schools.

As a result, USAID/Lesotho cannot be assured that all A.I.D.-financed instructional materials, worth approximately $827,000, have been delivered to the project warehouses, properly stored and controlled to prevent loss or damage, and distributed to target schools. There is no assurance that instructional materials were not misappropriated, although the absence of a system in place to identify received materials negated the opportunity to test for such a possibility during the audit.

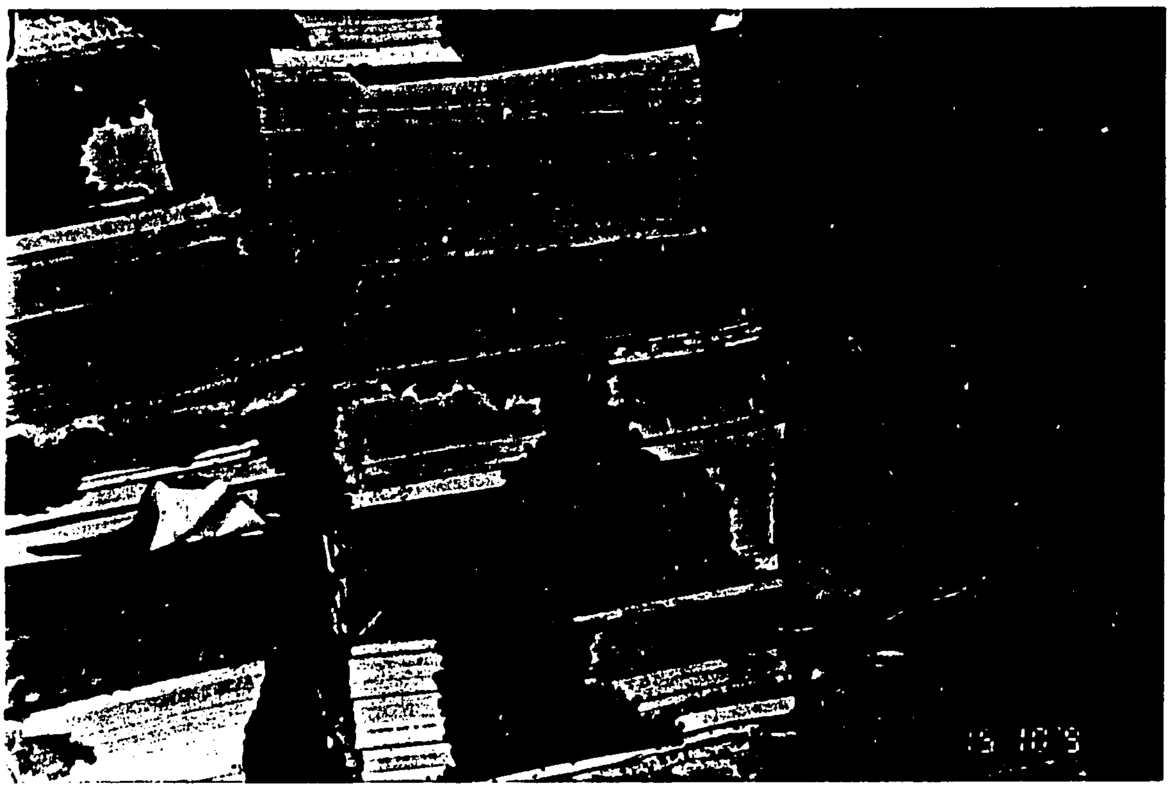


Mathematic aids stacked in a corner at a warehouse in Maseru.

In view of the weaknesses in internal control over commodities described above, the Mission should take immediate steps to:

-- ensure that an adequate commodity control system is established for this project before purchasing any additional commodities, and

-- ensure that its own monitoring system is in place and operating effectively to verify that project commodity control systems are operating satisfactorily.



Instructional materials damaged while in storage.

Management Comments and Our Evaluation

In response to the audit finding, USAID/Lesotho stated that the technical assistance contractor had established an inventory system that was deemed adequate for controlling receipt and distribution of instructional materials. Management stated that while the project did not have a system in place acceptable to the auditors, it did have documentation of varying degrees of thoroughness and accuracy on receipt, storage, and distribution of the materials. Furthermore, internal evaluations carried out by the contractor indicated that nearly all instructional materials reached the sub-district centers and schools. Management stated that there may be only a few items for which inventory records were not maintained.

We strongly disagree with management. The inventory and distribution accounting systems were not adequate to enable the Mission to identify materials received, stored, and distributed to schools in Lesotho. There was no system or procedures to compare items received at the warehouses with the quantities on the delivery document and the original purchase order to ensure that all items ordered were received. The contractor did not have any inventory records showing what items were stored in the warehouses. The contractor did not maintain adequate distribution records. Our tests showed that distribution sheets were unavailable for over 48 percent of items sampled. The contractor's internal evaluations did not show that nearly all of the instructional materials reached the schools. As previously discussed, only 45 percent of the primary teachers surveyed had received basic education supplementary materials.

USAID/Lesotho agreed to implement the audit recommendation contained in our draft report. They required the technical assistance contractor to take steps to correct the deficiencies noted during the audit. The contractor developed a procedures manual to account for instructional materials. The manual, which was issued in October 1990, established a manual inventory record system to account for the number of items received, issued and on hand. Procedures were developed and a form was designed to ensure that quantities of materials received agreed with the quantities on the delivery document and the original purchase order. A physical inventory was taken of all A.I.D.-financed materials and records were prepared for each category of material. The records were posted at the storage location and the records were adjusted when materials were issued. Also, all materials at the storage location were stored on pallets to eliminate damage from wall and floor moisture. Furthermore, forms were designed to obtain signatures from authorized officials for materials distributed by the contractor. We applaud the Mission's efforts and consider Recommendation No. 1 closed.

Did USAID/Lesotho follow A.I.D. procedures to ensure that project-funded vehicles were controlled and used for project purposes?

For the items tested, USAID/Lesotho did not follow A.I.D. procedures to ensure that project-funded vehicles were controlled and used for project purposes.

USAID/Lesotho did not establish an adequate control system to ensure that the technical assistance contractor tracked daily vehicle usage and reported the results to Mission personnel monitoring the project. Vehicle usage logs were either not produced or contained inadequate information to enable the Mission to track vehicle usage. The technical assistance contractor did not transmit such information to Mission officials who were responsible for ensuring that the vehicles were used solely for project purposes.

This weakness and the causes thereof are discussed below.

Project Vehicles Were Not Adequately Controlled

A.I.D. is responsible for ensuring that A.I.D.-financed commodities are effectively used for project purposes. However, an effective control system was not in place to ensure that vehicles were used solely for project purposes. This occurred because the Mission did not establish adequate monitoring procedures to ensure that the technical assistance contractor's daily vehicle control and utilization system was operating effectively. As a result, Mission management did not know whether vehicles were used for non-project purposes. In addition, three project vehicles were stolen (one was recovered), while one vehicle was destroyed in an accident, with the project suffering an unnecessary loss of usage of vehicles valued at about $38,065.

Recommendation No. 2: **We recommend that the Regional Contracting Officer determine the allowability and the amount that should be recovered from the technical assistance contractor.**

Recommendation No. 3: **We recommend that the Director, USAID/Lesotho require that the technical assistance contractor maintain vehicle usage records and provide usage certifications.**

The Mission was responsible for monitoring commodity controls to ensure that project-funded vehicles were utilized as planned. The Federal Managers' Financial Integrity Act of

1982 (P.L. 97-255) mandates that each executive agency's internal controls provide reasonable assurance that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

A.I.D. Handbook 15, Section 10B. establishes that the borrower/grantee must ensure that the commodities financed under project agreements are effectively used for the purposes for which they were made available. Section 10D. places upon the USAID the responsibility to ensure that the system is operating effectively by monitoring the system in a manner appropriate to local conditions. This generally means the review of project progress reports to ascertain that commodities financed by A.I.D. are being effectively used by the project.

A.I.D. provided about $311,000 to purchase 27 vehicles for project purposes. These vehicles consisted of a mix of trucks, station wagons, and similar vehicles.

The Mission did not have an effective control system in place to ensure that project-funded vehicles were used solely for project purposes. The Mission relied upon the technical assistance contractor to maintain a system to track daily vehicle usage. By letter dated 05 June 1985, USAID/Lesotho instructed the technical services contractor to establish a control system over project vehicle usage. A prim[illegible]ntrol technique under this system would be the maintenance of daily vehicle usage[illegible], to be reviewed by the contractor. The contractor would then certify to the M[illegible] a quarterly basis that vehicles were properly used. However, vehicle logs were not c[illegible]stently maintained and vehicle utilization reports and certifications were not sent to the Mission.

This occurred because the Mission had not established effective monitoring procedures to ensure that the technical assistance contractor's control systems were in place and operating effectively. Although the Mission received contractor progress reports, these reports did not address vehicle utilization or controls. Mission officials were unaware of the contractor certification requirements. We were told this was due to Mission staff changes since the time the requirement was initially established.

Mission officials never reviewed usage logs for vehicles assigned to the Ministry of Education and were unaware whether usage logs were maintained by the Ministry. As a result of this absence of an effective vehicle control system, Mission management did not know whether vehicles were used for non-project purposes. In addition:

-- three project-funded vehicles were stolen, and

-- one project-funded vehicle was destroyed, as detailed below:

Type of vehicle stolen from unsecured location.

Stolen Vehicles - Three project vehicles were stolen although one was recovered. All project vehicles were insured except for a Toyota Landcruiser, which was purchased for approximately $28,998. The Landcruiser was stolen twice, and recovered once. In one instance the theft occurred when the project vehicle was parked overnight at an unsecured location, the residence of the Principal Secretary for the Ministry of Education. Although the vehicle was stolen before and was recovered, this vehicle remained uninsured. The technical assistance contractor and USAID/Lesotho officials could not explain why the Toyota Landcruiser had not been insured. On the other hand, the insurance carrier reimbursed the contractor for one stolen vehicle that was purchased for about $12,276. We were unable to determine if the insurance proceeds received by the contractor were credited to the project because the contractor records were located in the U.S.

Destroyed Vehicle - One project vehicle purchased at about $9,822 was destroyed in an accident. Although the vehicle was insured by the technical assistance contractor, a claim for reimbursement was denied by the insurance carrier because the contractor did not comply with the terms of the insurance policy that required that all drivers must be 25 years of age and be licensed to drive for at least two years. The driver operating the vehicle had not been licensed for two years at the time of the accident. The vehicle was sold as scrap for approximately $755, resulting in a loss of approximately $9,067 in project funds.

Through these thefts and accident, the project suffered a loss of approximately $38,065. The purchase price of the uninsured, stolen and unrecovered vehicle was $28,998. The project also lost the use of a vehicle that was purchased for approximately $9,822 when the vehicle was destroyed in an accident and sold as scrap for approximately $755 due to noncompliance with the project's vehicle insurance policy.

Therefore, the Regional Contracting Officer should determine whether the technical assistance contractor was negligent in its custody of the two vehicles and determine the amount of funds that should be recovered from the contractor. Additionally, the Director, USAID/Lesotho should require that the contractor maintain vehicle usage records and provide usage certifications.

Management Comments and Our Evaluation

The Regional Contracting Officer, upon review of the draft audit finding and discussions with USAID/Lesotho management, determined that the technical assistance contractor was negligent in its custody of the two vehicles addressed in Recommendation No. 2. The Regional Contracting Officer stated that a Bill for Collection would be arranged to be issued to the technical services contractor. Recommendation No. 2 is considered unresolved and will be closed when the Regional Contracting Officer provides us with a copy of the Bill for Collection or other appropriate documentation to evidence support of a claim by USAID.

Recommendation No. 3 is considered resolved since it is superseded by events. USAID/Lesotho provided documentation that approved the transfer of project vehicles to the Government of Lesotho's Ministry of Education. We will consider this recommendation closed when USAID/Lesotho provides us with documentation indicating that the vehicles were transferred and received by the Government of Lesotho's Ministry of Education.

Did USAID/Lesotho follow A.I.D. procedures to ensure that A.I.D.-funded participants fulfilled the terms of their training agreements by returning to work for the benefit of the project?

Although all project-funded participant trainees returned to Lesotho following termination of their training, USAID/Lesotho did not follow A.I.D. procedures to ensure that participants fulfilled the terms of their training agreements by returning to work for the benefit for the project.

All participants who completed their training returned to Lesotho as called for in their training agreements with the Government of Lesotho. A total of 32 participants completed their training between 1987 and 1990. According to the contractor managing the participant training element, it cost A.I.D. about $977,500 (not including the airline fares from Lesotho to the United States) to train these individuals. Government of Lesotho records showed that all 32 trainees returned to Lesotho, thus fulfilling that term of their training agreements with the Government of Lesotho.

While all trainees fulfilled part of their agreements by returning to Lesotho, seven of the 32 individuals did not fulfill a second requirement of their agreements. This term of their agreements required that they return to work for organizational units benefiting from the project.

This weakness and the causes thereof are discussed below.

Participants Did Not Comply With Their Agreements

It is A.I.D. policy that all feasible steps be taken to ensure that trainees return to work in positions where their training is utilized effectively. Of the 32 participants who received training under the project, seven did not comply with this requirement. This occurred because USAID/Lesotho had not established a Mission monitoring system to identify project participant trainees who were not fulfilling the terms of their training agreements and the Mission had not developed any procedures for its officials to follow once violators were identified. As a result, the project will not receive the benefit of A.I.D.-funded training valued at $212,200.

Recommendation No. 4: We recommend that the Director, USAID/Lesotho:

4.1 establish a Mission monitoring system to identify project participant trainees who are not fulfilling the terms of their training agreements; and

4.2 issue guidance for Mission officials managing participant training portfolios detailing the actions they are to take in cases of trainee non-compliance with the terms of their agreements.

Participant trainees are foreign nationals whose education or training is funded or sponsored by A.I.D. and takes place outside of the home country. The participants sign training agreements with the host government to return to the host country for a stipulated period and work for the benefit of the project under which they were funded.

A.I.D. is responsible for monitoring the participant training control system. The Federal Managers' Financial Integrity Act of 1982 (P.L. 97-255) mandates that each executive agency's internal controls provide reasonable assurance that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

A.I.D. policy, as stated in A.I.D. Handbook 10, Section 33A.2., states that

> "All feasible steps should be taken to ensure that AID-sponsored trainees return to work within their home countries <u>and in positions where there training is utilized effectively"</u>. (Emphasis added).

All training agreements between project participants and the Government of Lesotho contained a requirement that the participant return to Lesotho at the close of training and that they work with government or other organizational units being assisted by the project. While all 32 participants trained under the project returned to Lesotho, seven did not return to work for organizational units benefiting from the project as shown by personnel rosters of those units. Of the seven who did not comply with their agreements:

-- four left Lesotho; and

-- three were employed by government organizational units which were not directly benefiting from the project.[2]

This condition occurred because the Mission had not implemented an effective system to monitor trainee compliance with this term of their training agreements, or ensure that the Government of Lesotho enforced this requirement for project participants. Project officials stated that it was extremely difficult to retain trained professionals in project-assisted organizational units because such individuals could command higher salaries with

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[2] In addition, an eighth returned participant trainee has notified the Government of Lesotho that he intends to leave Lesotho in the immediate future.

Government of Lesotho organizational units outside of the project's sphere, and with employers outside of Lesotho. Nonetheless, the Mission retained the responsibility to ensure that A.I.D. funds were used for project purposes, including the training of participants who would return to benefit the project.

The Mission could not easily identify participants who were not complying with the terms of their agreements. Also, it had not established any set of procedures for its officials to follow to ensure that the Government of Lesotho enforced the training agreement terms, once violators were identified. As a result, the skills developed by seven participant trainees, whose training was valued at $212,200, will not fully benefit the project or the organizational units being assisted by the project. Further, with the departure of four of these seven individuals from the country, the Government of Lesotho has lost these individuals' skills from its national manpower pool.

Management Comments and Our Evaluation

USAID/Lesotho generally disagreed with the finding and recommendation contained in our draft report. Of the seven participant trainees that did not comply with the terms of their service agreements, the Mission contended that since three participants still worked for governmental units, the Government of Lesotho benefitted from their services. The Mission also felt that the monitoring system was adequate since the Project Working Group and the Ministry of Education discussed the issues. We disagree with management's position.

Although we noted the economic problems relayed in the Mission's response to our draft report, we feel that USAID/Lesotho did not have a set of procedures for its officials to enforce compliance. The Mission stated that the Ministry of Education officials had determined that the agreements signed by the participant trainees were unenforceable. Also, the Mission relied on the technical assistance contractor to monitor returned participant status. However, we believe that management did not take all feasible steps as required by A.I.D. Handbook and also did not implement a system to monitor trainee compliance.

This recommendation is considered unresolved. We will consider Recommendation No. 4 closed when USAID/Lesotho provides us documentation showing that it has established the recommended internal controls.

Did USAID/Lesotho follow A.I.D. procedures for allocating administrative support costs to the project?

For the items tested, USAID/Lesotho did not always follow A.I.D. procedures for allocating administrative support costs to the project. Approximately 56 per cent of our sample was properly allocable to the BANFES project for administrative support costs. However, USAID/Lesotho did not follow A.I.D. procedures for allocating other administrative support costs to the project.

USAID/Lesotho allocated $394,239 to the BANFES project as of September 30, 1990 for administrative support costs. Our examination involved $200,709, which was approximately 51 per cent of such costs that were allocated to the project. These charges consisted of $91,792 for medical unit costs, $93,000 for housing maintenance contract, $4,723 for the cost of the community liaison officer and $11,194 for diplomatic pouch services. The audit found that $112,290 of administrative support costs could be identified, segregated and were allocable to the project.

However, we estimated that USAID/Lesotho did not properly allocate administrative support costs of $88,419 to the project. The Mission's allocation practices were inconsistently applied and could not easily be determined or explained.

Problems with allocating administrative support costs are discussed below.

The Mission Did Not Properly Allocate Certain Administrative Support Costs

A.I.D. Handbook 19, Chapter 11, provides guidance to Missions on costs to be charged to operating expenses and costs to be funded from the appropriate project and program allotment. However, project funds were misallocated for administrative support costs. This occurred because the Mission did not have an adequate system and procedures established that documented its methodology for allocating administrative support costs between projects and the operating expense account. As a result, we estimate that the project was overcharged by as much as $88,419 for administrative support costs which includes $24,156 of administrative support costs for direct-hire personnel that should have been charged to the Mission's operating expense account. The difference of $64,263 should have been charged to other projects.

<u>Recommendation No. 5</u>: We recommend that the Director, USAID/Lesotho issue a Mission Order or take such other action as necessary to document the methodology for allocating administrative support costs between projects and the operating expense account and establish a system to provide reasonable assurance that the methodology is correctly and consistently applied.

The Operating Expense account was created for the purpose of consolidating AID's cost of doing business into a single appropriation account. The account has been adopted by AID as a discrete item for Agency budget presentation to the Congress, the Office of Management and Budget, and for internal management. It also provides an increased level of accountability for the Agency.

A.I.D. Handbook 19, Chapter 11, Section 11B3a. states the following costs should be charged to operating expenses:

- salaries and benefits and support costs of all direct-hire personnel;

- salaries and support costs of consultants, contractors, Participating Agency Service Agreement and Resources Support Service Agreement personnel engaged in Agency management operations, and studies and evaluations; and

- costs of all general management support services such as office space, utilities, Mission motor pool and Foreign Affairs Administrative Support.

Furthermore, Handbook 19, Chapter 11, Section 11B3b. states all costs other than those above are funded from the appropriate project or program allotment. For example, costs associated with consultants, contractors, Participating Agency Service Agreement and Resources Support Service Agreement personnel engaged exclusively in project design implementation and evaluation, including feasibility studies may be allotted to appropriate project or program accounts. Such costs include direct contractual expenses, as well as support costs to the extent that they can be identified and segregated.

For our sample, we found administrative support costs of $112,290 were properly allocable to the project, while $88,419 were not properly allocated by USAID/Lesotho. Also, the Mission's allocation practices were inconsistently applied and could not easily be determined or explained. Examples are discussed below:

<u>Medical Unit</u> - The Mission charged $91,792 of this unit's costs to the project. The medical unit provided services to various U.S. Government agencies including Embassy personnel, USAID/Lesotho U.S. direct-hire employees and U.S. contractors working for

USAID/Lesotho. Although during fiscal years 1984 through 1990 the number of authorized U.S. direct-hires ranged from 8 to 10 positions, the Mission did not allocate any amounts for the portion of the services received by the Mission's U.S. direct-hire employees to the Mission's operating expenses account. Using our methodology for allocation (see Appendix I), $44,811 of the $91,792 was properly allocable to the BANFES project, $19,882 should have been allocated to the Mission's operating expense account and $27,099 to other projects.

<u>Diplomatic Pouch</u> - A total of $11,194 was charged to the project for diplomatic pouch services. Although USAID/Lesotho's U.S. direct-hire personnel also received diplomatic pouch services, the Mission's operating expense account was not charged for their proportional use. Using our methodology for allocation, $5,790 was properly allocable to the BANFES project, $2,895 should have been charged to the Mission's operating expense account and $2,509 to other projects.

<u>Housing Maintenance</u> - According to an USAID/Lesotho official, the Mission's housing maintenance contract only covered services for U.S. contractor personnel working on USAID/Lesotho projects. Under that contract, the Mission charged $93,000 to the BANFES project. Using our methodology for allocation, $58,241 was properly allocable to the project and $34,759 should have been charged to other projects.

USAID/Lesotho did not have an adequate system and procedures established that documented its methodology for allocating administrative support costs between projects and the operating expense account. In all three examples cited above, Mission officials could not explain the basis for their allocation. There was no detectable consistent pattern of allocation other than the practice of charging projects for all administrative support costs that included support for U.S. direct-hires. Mission officials stated that they did not allocate certain administrative expenses to the Mission's operating expense account for the portion of the services received by the U.S. direct-hire employees at the Mission. The Mission charged the projects for these services. Moreover, officials could not explain how these administrative support costs were allocated among the various projects due to lack of complete data, passage of time, loss of institutional memory and change of personnel at the Mission.

As a result, we estimated that the BANFES project was overcharged by as much as $88,419 for administrative support costs. This included $24,156 of administrative support costs for direct-hire personnel that should have been charged to the operating expense account. Therefore, $88,419 was unavailable for project implementation.

Management Comments and Our Evaluation

USAID/Lesotho generally agreed with the finding and recommendation contained in our draft report. The recommendation is considered unresolved, however, because the Mission did not specify any corrective actions in its response. We will consider Recommendation No. 5 closed when USAID/Lesotho provides us documentation showing a Mission Order or other documentation deemed appropriate has been developed and issued. This documentation should establish a system and procedures for charging and allocating administrative support costs to projects in compliance with A.I.D. handbook requirements.

REPORT ON INTERNAL CONTROLS

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

Scope of Our Internal Control Assessment

We performed our work according to generally accepted government auditing standards which require that we (1) assess the applicable internal controls when necessary to satisfy the audit objectives and (2) report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We limited our assessment of internal controls to those controls applicable to the audit's objectives and not to provide assurance on the auditee's overall internal control structure.

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

General Background on Internal Controls

The management of A.I.D., including USAID/Lesotho, 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 Managers' 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.

The Office of Management and Budget (OMB) has issued "Guidelines for the Evaluation and Improvement of and 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 controls and procedures for federal foreign assistance 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.

Conclusions for Audit Objective One

The first audit objective relates to the accounting, storage, and utilization of instructional materials. In planning and performing our audit of instructional materials, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 15. For the purposes of this report, we classified the relevant policies and procedures into the following category: commodity storage and utilization monitoring process. We noted one condition:

> USAID/Lesotho did not establish an adequate system and procedures to provide reasonable assurance that A.I.D.-financed instructional materials were properly accounted for, stored, and distributed to the institutions and primary schools in Lesotho.

This deficiency in internal controls resulted in the inadequate accounting, storage and distribution of instructional materials.

Conclusions for Audit Objective Two

The second audit objective relates to the control of project-funded vehicles. In planning and performing our audit of project vehicle controls, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 15. For the purposes of this report, we classified the relevant policies and procedures into the following category: vehicle utilization monitoring and control process. We noted one condition:

> USAID/Lesotho did not establish an effective control system to provide reasonable assurance that A.I.D.-funded project vehicles were used solely for project purposes.

This deficiency led to the Mission not knowing whether A.I.D.-funded vehicles were used for non-project purposes.

Conclusions for Audit Objective Three

The third objective relates to training provided to employees working with organizational units being assisted by the project. In planning and performing our audit of participant training, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 10. For the purposes of this report, we classified the relevant policies and procedures in the following category: monitoring process for compliance with training agreements. We noted one condition:

> USAID/Lesotho did not establish a system to monitor the participant trainees' compliance with agreements that they signed to continue working with organizational units being assisted by the project.

This deficiency in internal controls resulted in skills developed by participant trainees not being fully utilized to benefit the project.

Conclusions for Audit Objective Four

This objective relates to USAID/Lesotho's allocation of administrative support costs to the project. In planning and performing our audit of certain administrative support costs charged to the project, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 19. For the purposes of this report, we classified the relevant policies and procedures into the following category: budgetary accounting system. We noted one condition:

> USAID/Lesotho did not have a system and procedures established that documented its methodology for allocating administrative support costs between projects and the operating expense account.

This deficiency in internal controls resulted in the project being overcharged and the operating expense account being undercharged for administrative support costs.

REPORT ON COMPLIANCE

This report summarizes our conclusions on the auditee'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:

(1) 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

(2) 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/Lesotho's compliance with the Federal Managers' Financial Integrity Act of 1982 (P.L. 79-255) as it could affect our audit objectives. However, our objective was not to provide an opinion on USAID/Lesotho's overall 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, grant and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance 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 behavior.

Compliance with the Federal Managers' Financial Integrity Act of 1982 (P.L. 79-255) is the overall responsibility of USAID/Lesotho's management. This Act mandates that Agency internal controls provide reasonable assurance that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

Conclusions on Compliance

The results of our tests of compliance indicated that, with respect to the items tested, USAID/Lesotho complied with the Federal Managers' Financial Integrity Act except for:

-- accounting and controlling the storage and distribution of project-supplied instructional materials,

-- controlling project-funded vehicle utilization, and

-- ensuring that project-funded participant trainees fulfilled the terms of their training agreements.

These findings are discussed in more detail in the report of audit findings under Audit Objectives No. 1, 2, and 3.

Exhibit I

UNITED STATES A.I.D. MISSION TO LESOTHO

AMERICAN EMBASSY
P.O. BOX 333
MASERU 100
LESOTHO

Telephone 313954
Telex 4506 USAID LO

MEMORANDUM

TO: Andy Strain, Chief of Party - BANFES Project

FROM: Jean H. Meadowcroft, SGDO - USAID

SUBJ: Instructional Materials Storage and Distribution

DATE: October 17, 1990

This memorandum records our review yesterday of instructional materials and distribution.

The two storage rooms were found with the materials stored in a disorganized manner, mostly piled on the floor.

The inventory and distribution systems were not readily apparent.

I request the following by Friday, October 19:

1. Written procedures for:

- receiving materials
- storage and inventory of materials
- distribution and accounting for materials

2. School Supply Unit plan for material distribution

3. BANFES plan for transfer to MOE/SSU of any materials remaining at the current end of contract (March 1, 1991).

I also requested that these storage rooms and materials be cleared and organized. It would be very advisable to have completed this by the auditors exit meeting on October 24, 1990.

Certainly BANFES has management in place - weekly project management, monthly project work group, monthly T.A. reports. Also, the internal evaluation showed materials are in use in classes. Nonetheless, we do not need eyesores like these storage room.

Thank you for your help in resolving this problem.

SCOPE AND METHODOLOGY

Scope

We audited the Basic And Non-Formal Education Systems (BANFES) Project in accordance with generally accepted government auditing standards. We conducted the audit from July 17, 1990 through October 24, 1990, and covered the systems and procedures relating to project inputs financed by A.I.D. from July 26, 1984 through October 24, 1990.

For Audit Objective One, we determined that the technical assistance contractor spent about $827,000 for the purchase of instructional materials to be disseminated to institutions and schools in Lesotho. For Audit Objective Two, we determined that the project purchased 27 vehicles for approximately $311,000. We examined vehicle usage logs for 22 of these vehicles. For Audit Objective Three, we obtained documentation showing that it cost A.I.D. about $977,500 to train 32 Ministry of Education personnel. For Audit Objective Four, we determined that USAID/Lesotho allocated $394,239 to the project for administrative support costs. We examined $200,709, which was approximately 51 percent of such costs that were allocated to the project.

We conducted our field work in the offices of USAID/Lesotho, at the Government of Lesotho's Ministry of Education, and in the various offices of the technical assistance contractor in Maseru, Lesotho. We inspected instructional materials at two warehouses located at two different sites in Maseru. We toured the storage sites and noted, through visual inspection, the types of physical measures that were in-place to protect the materials from loss and damage. In the absence of an operating system to identify the location of commodities, we were unable to perform standard audit tests to locate specific items.

The Mission did not have an effective system for allocating project funds between project and the operating expense account. Therefore, the auditors developed their own methodology to allocate the amount of expenses that should have been charged to the Mission's operating expense account and the amount that could have been charged to each project. A description of this methodology is discussed under Audit Objective Four below.

We limited our assessment of internal controls to those controls applicable to the audit's objectives. See report on internal controls on page 22. We considered the findings contained in the Office of Inspector General audits of Lesotho Agricultural Production Support Project, Report No. 3-632-90-03, dated November 20, 1989 and Zimbabwe Basic Education and Skills Training Program, Report No. 3-613-90-08, dated April 6, 1990 in planning our work for this audit.

Methodology

Audit Objective One

The first objective was to determine whether USAID/Lesotho followed A.I.D. procedures to ensure that A.I.D.-funded project instructional materials were accounted for, controlled, and used in the project.

To accomplish this objective, we examined the project paper, the project agreement, and contractor-generated commodity data. We visited the technical assistance contractor's office and the School Supply Unit in Maseru, the capital of Lesotho, to review the types of records that the contractor had available to account for the materials received, stored, and distributed. Contractor personnel provided documentation including purchase orders, invoices, delivery notes supplied by suppliers, and checks to quantify the amount of instructional materials procured using project funds.

We interviewed technical assistance personnel working in Maseru and met with USAID/Lesotho personnel including the project officer responsible for managing the project and monitoring the contractor's performance.

Audit Objective Two

The second objective was to determine whether USAID/Lesotho followed A.I.D. procedures to ensure that project-funded vehicles were controlled and used for project purposes.

To accomplish this objective, we examined the project paper, the project agreement, the technical assistance contract, vehicle insurance policies, a vehicle accident report, vehicle theft reports, insurance reimbursement checks, USAID/Lesotho and contractor vehicle usage policies.

We met with officials working with the Contracting, Legal and Commodity Management Divisions of the Regional Economic Development Services Office for East and Southern Africa in Nairobi, Kenya. Also, we interviewed technical assistance personnel and Mission personnel including the Mission project officer, in Maseru.

Audit Objective Three

The third objective was to determine whether USAID/Lesotho followed A.I.D. procedures to ensure that A.I.D.-funded participants fulfilled the terms of their training agreements by returning to work for the benefit of the project.

To accomplish this objective, we obtained listings of all participant trainees and the cost to train each participant from the University of Massachusetts which administers the training program. We reviewed Government of Lesotho agency personnel rosters to determine the present employment status of all 32 trainees. We identified trainees that were no longer employed or had served notices to terminate their employment with the organizational unit from which the trainee agreed to work a certain period of time after completing his or her training. We obtained signed service agreements for these trainees.

An interview was conducted with a participant who had left the organizational unit being assisted by the project and another participant who had served notice of intention to do so at a later date. We also interviewed Government of Lesotho's Ministry of Education, contractor and USAID/Lesotho personnel.

Audit Objective Four

The fourth objective was to determine whether USAID/Lesotho followed A.I.D. procedures for allocating administrative support costs to the project.

To accomplish this objective, we held discussions with officials working with the Regional Financial Management Center of the Regional Economic Development Services Office for East and Southern Africa, the U.S. Embassy in Nairobi and the U.S. Embassy in Lesotho to discuss the Foreign Affairs Administration Support arrangements between the Department of State and A.I.D. We met with USAID/Lesotho personnel to discuss the system and procedures used to distribute administrative support costs among the projects and the operating expense account and to obtain documentation to support the basis of allocation and methodology. We obtained copies of pertinent project implementation letters which were used to commit project funds for administrative support costs.

The auditors developed the following methodology to determine the amount of administrative support costs that should have been charged to the Mission's operating expense account and the amount that could have been charged to each project.

Using data provided by USAID/Lesotho and by extrapolation (since data for some years were not made available to us), we computed the number of U.S. direct-hire personnel, total number of U.S. contractor personnel, and the number of U.S. contractor personnel working on the BANFES project and on other projects for the fiscal years in which the obligations were made. We then allocated the $395,788 of charges based on the number of personnel in each of the three categories. The application of our derived methodology determined that only $112,290 was allocable to the BANFES project and the project may have been overcharged by as much as $88,419. Moreover, we also determined that $24,156 should have been charged to the Mission's operating expense account for the services received by U.S. direct-hire personnel at USAID/Lesotho.

UNITED STATES GOVERNMENT

memorandum

DATE: March 28, 1991

REPLY TO ATTN OF: F. Gary Towery, Director, USAID/Maseru

SUBJECT: Mission Comments on Draft Audit Report on Lesotho's Basic and Non-Formal Education Systems (BANFES) Project No. 632-0222

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

The findings contained in subject draft are, in general terms, valid. However, we find the circumstances overstated and conclusions misleading in the sense that it would appear that the Mission was less than diligent in fulfilling its oversight responsibilities of project activities. As noted below, this is not the case.

The body of the report contains repetitive information. For instance, the finding on instructional materials makes reference that USAID.." cannot be fully assured that all instructional materials, worth approximately $827,000,.." is repeated almost verbatim in at least four different parts of the report. The same may be said of the finding on vehicle usage.

While the recommendations address the problems found by the audit, we believe the auditors may not have fully considered the Agency guidance in effect at the time of project design. USAID/Maseru, in line with Agency policy, relied on contractor performance in order to implement the very large projects which were authorized in the 80s. In doing so, the technical assistance contracts included personnel to properly administer and monitor project-purchased commodities. The contractor, AED, in this case, is a reputable organization with ample A.I.D. experience to exercise reasonable and prudent management of project resources. In fact, USAID, Ministry of Education, and AED held meetings twice a month to oversee and approve project activity. Under this condition, Mission oversight should properly be at low levels, if the Agency is to get a good return on contract investment. Accordingly, low Mission personnel ceilings to monitor project activity approved by A.I.D./W reflect this policy. Although this constraint does not detract from our responsibility for project monitorship, it is a fact that should be taken in consideration when pointing out shortcomings uncovered by audit.

The project has fulfilled its goal and purpose. Lost opportunities in project implementation have been kept at a minimum for this to have been accomplished. Consequently, it may be concluded that the Mission, the contractor, and the GOL performed in a satisfactory way to have obtained the stated goal and purpose. I request that this fact be included in the audit report highlighting the magnitude of the BANFES project.

The returned participant problem is a thorny issue that is common to most A.I.D. projects with participant training components. However, I may point out that an 87.5 percent retention of returned participants is acceptable and much higher than in many African countries. The finding should discuss the problem from our perspective highlighting the high retention rate in light of the opportunities for higher earnings that exist just a mile out of downtown Maseru, in the Republic of South Africa.

More specific comments follow.

Report of Audit Findings, page 5, para 2. "The Academy...procured some useful...". Strike "some". Not withstanding evidence to the contrary, the use of "some" leaves the impression that only an unknown or unspecified amount of instructional material procured was useful and the balance of undetermined quality or usefulness. In fact, an evaluation concluded the materials were very useful.

page 6, para 2. "AED did not maintain inventory records on all instructional material..."
This statement implies that no inventory records were maintained on all instructional material received. In fact, AED established an inventory system that was deemed adequate for controlling receipt and distribution of instructional material. The system controlled distribution to 68 subdistrict dissemination centers. The material was packaged and marked for specific schools located in the area of the dissemination centers. The centers distributed packages as schools officials came to participate in dissemination workshops and claim their instructional materials. Access roads from the centers to the schools are virtually non-existent and most schools are reachable only by foot or horseback. AED and the Mission believed that sufficient control was exercised though the subdistrict dissemination centers and gave assurances that material reached the intended targets. In regard to this finding, our assertion is that while BANFES did not have a system in place acceptable to the auditors, it did have documentation of varying degrees of thoroughness and accuracy on receipt, storage and distribution of the materials. Furthermore, internal evaluations carried out by AED indicated that nearly all of these instructional materials did reach sub-district centers and schools. These evaluations were made available to the auditors. There may be only a few items for which inventory records were not maintained. If the items' value were to be quantified, only a small portion of the $827,000 would be identified in the finding. Therefore, if the exact value amount of instructional materials identified in the condition described in the finding cannot be substantiated and properly documented, all reference to "approximate worth of $827,000" should be deleted. It is suggested that wherever reference is made regarding accountability, inventory, and delivery of instructional material, the text be changed to:..."Not all instructional materials received at the warehouse were

adequately accounted for because lapses in following record keeping procedures; as a result, USAID/Maseru cannot be fully assured that all of the instructional materials were properly stored and distributed to the institutions and primary schools in Lesotho."

Recommendation No.1 and Recommendation No. 2. The action required by the recommendation has been overtaken by events. All procurement and distribution of instructional material by AED has been completed. Even as the field work phase of the audit was in progress, AED and USAID/Maseru took steps to correct the deficiencies encountered during the audit. AED promptly assembled a manual to account for inventory and distribution of material to users. See 90 Maseru 03310. Mission staff (Project Officer and Controller) reviewed and approved the system put in place to correct the condition. We suggest that the recommendation either be deleted from the findings or closed when the audit report is issued.

pages 9,10,11,12,13,14. Receipt. Storage. Distribution. As indicated above, the condition encountered by the auditors has been corrected. AED has informed the Mission that material shown in the photographs were left-over parts from mathematics aids already distributed to schools. They are not new materials which were awaiting distributions. Also, if words are not adequate to describe storage conditions of the left-over part, we suggest pictures of a professional quality be used. In subsequent visits the auditors were able to verify that the photographed materials had been neatly arranged and inventoried. It is suggested that this fact also be disclosed.

page 14. Project Vehicles Were Not Adequately Controlled. In order to put in proper perspective the condition described in the audit report, the leading statement of this audit finding should perhaps establish the size (27 vehicles), the period of custodial responsibility (6 years to the date of audit), and the value ($311,000, acquisition cost) of the fleet.
Throughout the discussion of this finding, it appears that as a consequence of USAID/Maseru not providing adequate oversight and AED not keeping an effective system to ensure vehicle logs were accurately maintained, 3 vehicles were stolen and one destroyed in an accident. The audit does not establish that theft and accidents were due to negligence of the contractor, which in fact is not the case. Nor does log usage relate to vehicle loss. At the time of the audit, the auditors were provided with copies of a comprehensive vehicle use policy, including forms and procedures, to enforce that policy. Furthermore, AED states that the two specific vehicle incidents cited by the auditors were due to lapses in the system. We agree that the real problem area was following the insurance policy requirements, and that at the time of audit the loss of two vehicles had not been compensated for by the insurance company because the established procedures were not followed.

page 16." ...we were unable to determine if insurance proceeds ...were credited to the project...contractor records were located in the U.S." AED informs the Mission that the statement is incorrect. The Chief of Party did provide evidence to the auditors that these insurance proceeds were credited to the BANFES imprest account and has provided the Mission with a copy of a deposit slip dated April 30, 1990 for Maloti 35,750 ($14,300, US$1 = M2.50). A copy is enclosed for your further use.
This finding has also been overtake by events. In reducing contract activities, the Mission has transferred the vehicle fleet to the Ministry of Education, in accordance with A.I.D. project close-out procedures. Copy of Project Implementation Letter No. 37, dated March 25, 1991, attached.

Related comments and recommendation on pages 16,17,18,and 19 should be revised to reflect the foregoing, taking in consideration that:

1. AED did have a comprehensive vehicle use policy, including forms and procedures to enforce that policy. This policy made sure that vehicles were used for project purposes only. Minor deviations resulted in non-project use by MOE personnel of one vehicle.

2. Insurance proceeds for the theft of one vehicles were deposited to the BANFES imprest account.

3. AED no longer has control of the vehicle fleet. The vehicle fleet has been transferred to the Ministry of Education.

pages 20 through 23, Participant Training. The finding described in this section by the auditors is that seven of 32 returned participants did not fulfil their contractual agreement.
The Mission disagrees. The last sentence in page 20 reflects the auditor's judgement that there was not an effective system in place to ensure trainees used their new skills in the project and to ensure training funds were effectively spent. The system in place provided for a Technical Advisor (TA) at each component to monitor the work of returned participants and reported on successes and problems. Project Work Group, which had representatives from both MOE and USAID, was frequently informed about problems with work assignments and working conditions for returned participants. The BANFES Training Office developed and maintained an extensive database to track all in-country and overseas training activities, including costs and follow-up evaluations of effectiveness. The sentence should be either deleted or changed to reflect the condition as described in the preceding sentences.

page 22:. The finding quantifies the training cost ($245,000) which, according to the auditor, will not benefit the GOL. Of the seven participants in question, four have apparently left for higher paying jobs in the Republic of South Africa. Of the three who remain in the country, two went from the National Teacher Training College to the National University, and the third went from the Instructional Materials Resource Centre to the School Supply Unit. In other words, three stayed within the scope of the BANFES Project. All three are in the service of the Government of Lesotho.

As mentioned before, TAs were assigned to monitor returned participants and BANFES developed a tracer study precisely to investigate reports from individual TAs. The study was given to the auditors. Problems with assignments for returned participants were repeatedly raised at Project Work Group and discussed directly with the Principal Secretary (PS) and the Deputy Principal Secretary. The auditors were informed the PS had stated that the MOE had no way to enforce service agreements. The problem is not the lack of monitorship by BANFES, but the lack of MOE ability to enforce GOL and USAID policy. We propose that the recommendation be deleted and in its place USAID/Maseru be urged to develop in future projects with the MOE an enforceable agreement committing returned participants to work for specified period for the MOE. It may be worth mentioning that the GOL invests resources in participants by paying their salaries throughout the training period. Any participant lost represents a financial as well as a human resource loss to the GOL.

page 26. Cost Allocations. The highlighted sentence is not quite correct. USAID/Maseru did have and allocation system. As pointed out, Handbook 19 requires allocation of cost between operating expense and project when costs are shared. This requirement constitutes Agency policy. The Mission was remiss in not following policy and documenting the methodology used to allocate cost between project and operating expense .

page 30. Deleted - Relates to Matter Not Included in Final Report.

APPENDIX III

REPORT DISTRIBUTION

American Ambassador to Lesotho	1
Director, USAID/Lesotho	5
Regional Contracting Officer, USAID/Swaziland	1
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