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**Regional Inspector General for Audit
Dakar**

**Audit of USAID/Tunisia's
Management of the Computer Technology Project
Project No. 664-0334**

**Audit Report No. 7-664-92-05
March 9, 1992**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL
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WASHINGTON, D.C. 20523

March 9, 1992

INTERNATIONAL ADDRESS
RIG/DAKAR
C/o AMERICAN EMBASSY
B.P. 49 DAKAR SENEGAL
WEST AFRICA

MEMORANDUM

To: James A. Graham, Director, USAID/Tunisia

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

Subject: Audit of USAID/Tunisia's Management of the Computer Technology Project, Audit Report No. 7-664-92-05

Enclosed are five copies of the subject report. We have reviewed your comments cabled on March 3, 1992 (Tunis 001881) in response to our draft audit report and have taken them into consideration in preparing this report. Your comments are included in their entirety in Appendix II herein.

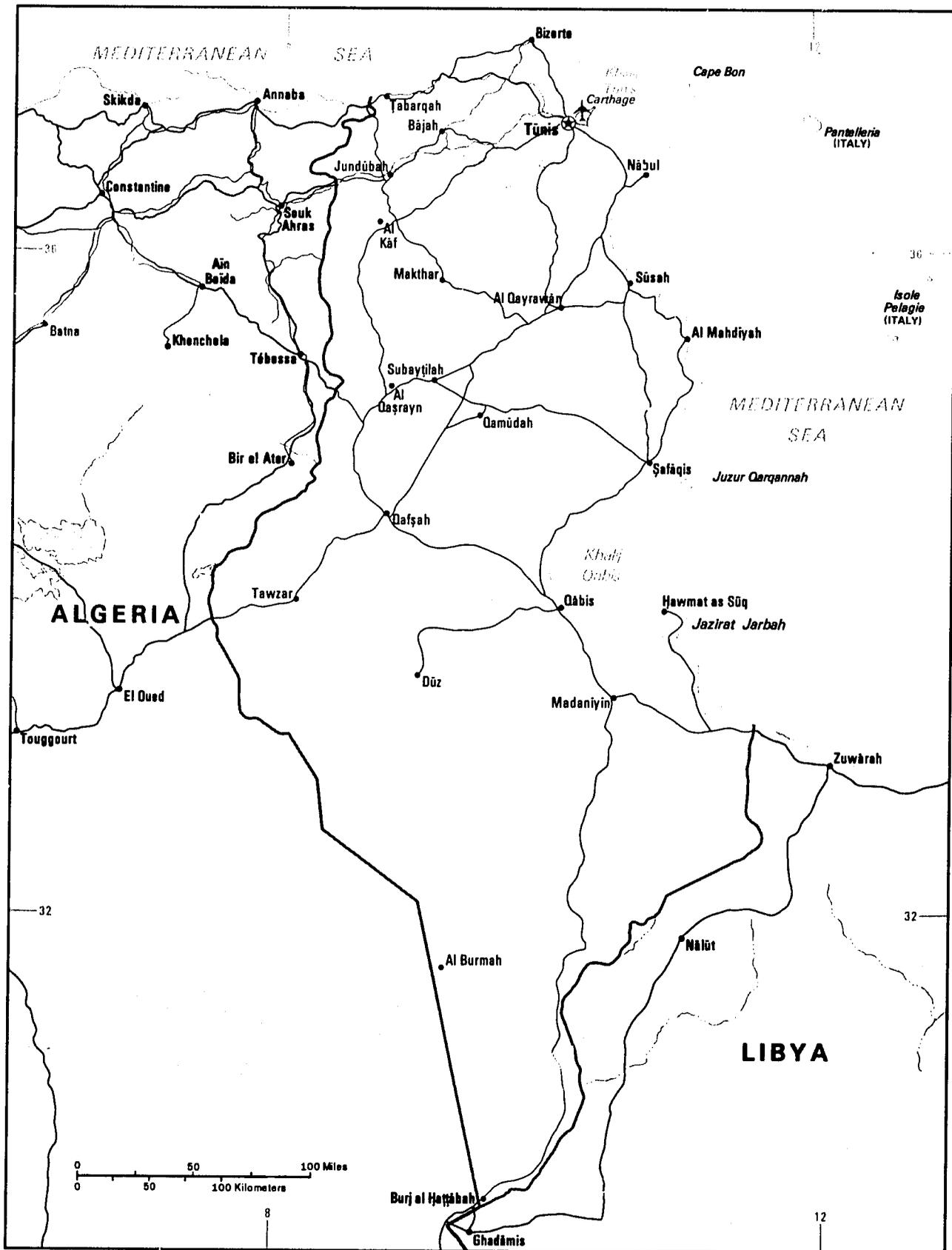
We were not able to fully answer the audit objectives because USAID/Tunisia's management declined to provide us with all the information essential for us to render a professional conclusion. These scope limitations will be discussed in more detail in the body of the report.

Recommendation No. 1 parts 1 and 2 and Recommendation No. 2 part 3 are resolved and closed upon report issuance. Recommendation No. 2 parts 1 and 2 are resolved with the planned issuance of a Mission Order on Project Officer's Monitoring Requirements and can be closed after the issuance and acceptance of this order by our office.

Please advise within 30 days of actions taken to implement Recommendation No. 2 parts 1 and 2. I greatly appreciate the cooperation and courtesies extended to the RIG/A/D staff during the audit.

Att.: A/S

Tunisia



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EXECUTIVE SUMMARY

On September 27, 1985, the U.S. Government represented by its A.I.D. mission in Tunisia and the Government of Tunisia (GOT) signed an agreement to jointly fund the Computer Technology Project. Under this agreement, USAID/Tunisia was to provide \$3,500,000 and the GOT the equivalent of \$7,175,000 in Tunisian Dinars and in-kind contributions. By the end of the project on March 31, 1990, the Government of Tunisia had contributed the equivalent of over \$12,000,000 or about 60 percent more than required by the agreement.

The goal of the project was to help improve Tunisian public and private institutions' ability to use and benefit from contemporary computer technology. Thus, the project focused principally on providing technical assistance, computer equipment and software, and short-term training to assist in

- the establishment of the Regional Institute for Computer Science and Telecommunications, and
- the expansion of computer literacy and computer-based education in Tunisian high schools and colleges primarily through donation of microcomputers and software.

Project implementing duties were shared by both USAID/Tunisia and the Government of Tunisia. While USAID/Tunisia was responsible for overall project oversight, it relied primarily on a Washington-based non-profit organization, the Academy for Educational Development for day-to-day project operations. For the GOT, the project manager was the head of the National Center for Computer Science.

We conducted the audit in accordance with generally accepted government auditing standards. The audit covered project management activities between September 27, 1985 and October 11, 1991 and indicated procedures in effect at the time of our field work from August 7, 1991 through October 11, 1991. The Audit Objectives are listed on page 3, and the scope and methodology of the audit are described on pages 21 through 23.

We were unable to express an opinion on two of the audit objectives due to a scope limitation. Specifically, mission officials would not confirm in writing that to the best of their knowledge and belief that they had provided us with all the essential information and that it was accurate and complete and they had followed A.I.D.'s policies. In view of the above, this report is limited because we cannot state positively that USAID/Tunisia

followed all A.I.D. policies and procedures applicable to the audit objectives. Based on the information provided and the tests made, the following problem areas came to our attention:

- *USAID/Tunisia's system for project monitoring, reporting, and evaluation focused only on reporting and evaluation and lacked procedures for project monitoring (see page 5).*
- *The Mission had no formal procedures for ensuring the completion of conditions precedent and covenants (see page 7).*
- *Further, there were no procedures to ensure that mission managers would monitor and document project activities as required (see page 12).*

The report contains two recommendations. It also (1) presents our assessment of internal controls (see page 16) and (2) reports on A.I.D.'s compliance with applicable laws and regulations (see page 19).

The draft report was reviewed by Mission management who generally agreed with the findings of the report and have already taken the necessary action to resolve or close the report's recommendations. We considered their comments in preparing this final report. The Mission's comments are summarized after each finding and included in their entirety in Appendix I.

Office of the Inspector General
Office of the Inspector General
March 9, 1992

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INTRODUCTION

Background

On September 27, 1985, the U.S. Government represented by its A.I.D. Mission in Tunisia (USAID/T) and the Government of Tunisia (GOT) signed a grant agreement to implement the Computer Technology Project (CTP), number 664-0334. Under this agreement, USAID/T was to provide \$3,500,000 and the GOT the equivalent of \$7,175,000 in local currency (the Tunisian Dinar) and in-kind contributions. This three-and-one-half-year project was extended for one year and completed on March 31, 1990. By the end of the project, the GOT had contributed the equivalent of over \$12,000,000 or about 60 percent more than required by the grant agreement.

The goal of the project was to help improve Tunisian public and private institutions' ability to use and benefit from contemporary computer technology. Thus, the project focused principally on providing technical assistance, computer equipment and software, and short-term training to assist in

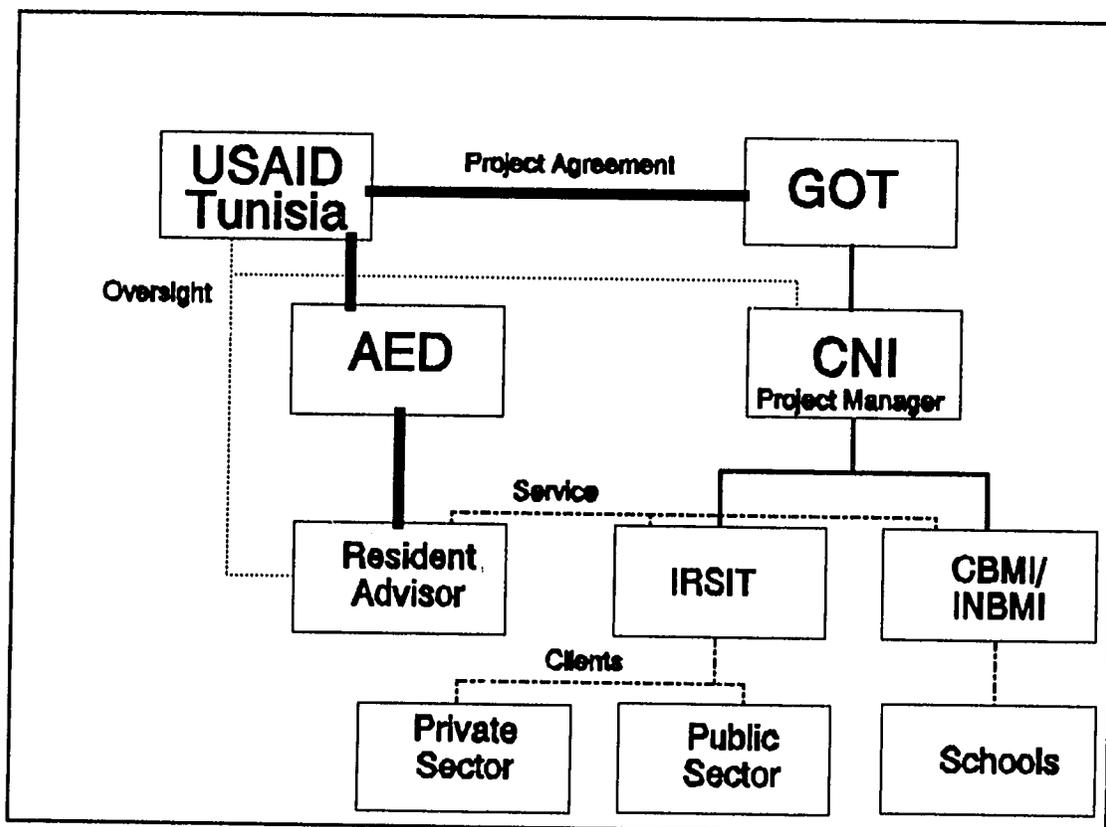
- the establishment of the Regional Institute for Computer Science and Telecommunications (IRSIT) to adapt current computer technology and to develop new software for use in the public and private sectors, and
- the expansion of computer literacy and computer-based education in Tunisian high schools and colleges primarily through donation of microcomputers and software.

Among the technologies that IRSIT expected to produce were

- **Scientific Applications** for handling environmental problems and improving agriculture,
- **Commercial Applications** for improving manufacturing and mining operations, and
- **Arabization Applications** for conversion of roman character text to Arab script to encourage and improve the Tunisian public's access to and understanding of computers.

The task to improve the general computer literacy in Tunisian schools was performed primarily by the Bourguiba Microcomputer Center, known as CBMI, which was later called the National Institute for Microcomputers and Office Automation or INBMI. During the term of the project, microcomputer courses were begun at six model schools throughout Tunisia. During the audit, INBMI officials were expanding the program to other secondary schools with equipment from another donor.

Project implementing duties were shared by both USAID/T and the GOT. While USAID/T was responsible for overall project oversight, it relied primarily on a Washington-based non-profit organization, the Academy for Educational Development (AED), through a direct contract with USAID/T, for day-to-day project operations such as deployment and supervision of consultants to carry out project activities, coordination of project activities with USAID/T and concerned GOT Ministries, arrangement of necessary training, and observational visits. In addition, the contractor was to provide administrative support to the project and technical support for selection and purchasing of computer hardware and software procured under the project. For the GOT, the project manager was the head of the National Center for Computer Science, or CNI, and the implementing agency was IRSIT. The chart below depicts these relationships.



Project funding was intended to pay for the cost of Technical Assistance to the GOT entities, short term technical training, computer hardware and software, the AED Resident Advisor, and pilot projects for computer education in high schools and colleges and development of software packages for IRSIT's clients.

Below is a summary of the project budget as of September 1985:

<u>Project Elements</u>	<u>USAID/T</u>	<u>GOT</u>
Technical Assistance	\$782,500	\$244,500
Training	197,400	96,000
Commodities	1,376,100	668,900
Evaluation/Audit	130,000	
Other	<u>1,014,000</u>	<u>6,165,700</u>
Total	<u>\$3,500,000</u>	<u>\$7,175,100</u>

Audit Objectives

The Office of the Regional Inspector General for Audit/Dakar audited USAID/T's Computer Technology Project to answer the following audit objectives:

1. Did USAID/Tunisia follow A.I.D. policies and procedures in establishing an overall system for project monitoring, reporting, and evaluation?
2. Did USAID/Tunisia follow A.I.D. policies and procedures designed to ensure that the GOT fulfilled the conditions precedent of the Project's Grant Agreement before releasing project funds?
3. Did USAID/Tunisia follow A.I.D. policies and procedures in monitoring, reporting on and evaluating inputs, expenditures, outputs, purpose, goals, and completion of the Computer Technology project?

In answering these objectives, we tested whether USAID/T followed applicable internal control procedures and complied with certain provisions of laws, regulations and agreements. Our tests were sufficient to provide reasonable--but not absolute assurance of detecting 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/T followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these findings to the items actually tested. But when we found problem areas, we performed additional work to:

- conclusively determine whether USAID/T was following a procedure or complying with a legal requirement;
- identify the cause and effect of the problems; and
- make recommendations to correct the condition and cause of the problems.

Appendix I describes in detail the audit scope and methodology.

REPORT OF AUDIT FINDINGS

We were unable to fully answer our audit objectives because Mission officials declined to provide us all the information essential for us to render a professional conclusion. They would not confirm that to the best of their knowledge and belief:

- they had provided us with all the essential information,
- the information they did provide to us was accurate and complete, and
- they had followed A.I.D.'s policies.

A complete description of the essential information that USAID/Tunisia would not confirm is provided in the Scope and Methodology Section on page 21. Without the requested written confirmations from USAID/T officials, we cannot fully determine if USAID/T did what it is required to do. Without such confirmations, we would, in essence, be stating that USAID/T complied with A.I.D.'s policies and procedures when USAID/T itself was not willing or able to make such a statement in writing.

While we cannot state positively that USAID/T followed its policies and procedures, we are not precluded from reporting on the problem areas that came to our attention. Based on the information that USAID/T did provide to us and the tests we were able to perform the following information came to our attention.

Did USAID/Tunisia follow A.I.D. policies and procedures in establishing an overall system for project monitoring, reporting and evaluation?

As discussed above, we cannot fully answer the audit objective. However, the following problem area came to our attention: USAID/T's system for project monitoring, reporting, and evaluation focused only on reporting and evaluation and lacked local written procedures for project monitoring. Further, there were no local procedures to ensure that Mission managers would review project files for required documentation.

Project Monitoring Procedures

A.I.D.'s Handbook 3 Chapter 11 Section E requires USAIDs to establish project management and portfolio oversight systems that have, at a minimum, monitoring procedures or methods which enable a project officer and other Mission managers to

- oversee compliance with A.I.D. policies, procedures, and regulations;
- ensure timely and coordinated provision of A.I.D. inputs;
- support grantee efforts to effectively use resources;
- identify implementation issues and non-performing projects;
- collect data and information for project analysis;
- develop a historical record of implementation for the official A.I.D. files; and
- prepare periodic reports for Mission and A.I.D./Washington review.

We found that a systematic monitoring process to help the project officer fulfill his monitoring duties was not codified through mission orders or directives. We note that Agency Guidance found in A.I.D. Handbook 13 Chapter 1N, A.I.D. Handbook 18 Attachment 1 A, 201-45.105-4(a), A.I.D. Handbook 18 Page 6F(1), and A.I.D. Handbook 3, Chapter 11 E(1) provide the Mission Director with the authorities as well as the responsibility to issue directives (commonly referred to as Mission Orders or Notices) for instructing personnel on how to carry out their responsibilities. Additionally, Supplement to Chapter 12, A.I.D. Handbook 3 Section 4.1.3 states "A mission order describing the organization and assignment of responsibilities for the Mission's monitoring and evaluation is required". The Mission's system lacked local monitoring guidance for the project officers because Mission management believed that the available guidance was adequate. USAID/Tunisia did have mission orders on evaluation activities. Mission managers thought that these orders were adequate given the small size of the Mission, the advanced nature of the programs, the well-developed working environment (in Tunisia), and the number and experience of the local USAID/T staff. However, the focus of this guidance was on evaluation. The local guidance did not cover the duties of the project officer for routine project monitoring and documentation or the related oversight duties of the project committees and Mission managers.

As a result of the absence of Mission procedures for project monitoring and oversight, tracking the completion of conditions precedent for and the overall monitoring of the Computer Technology Project was incomplete and insufficient. We cover these issues in detail and make recommendations accordingly under objectives two and three.

Did USAID/Tunisia follow A.I.D. policies and procedures designed to ensure that the Government of Tunisia fulfilled the conditions precedent and covenants of the project's grant agreement before releasing project funds?

USAID/T officials did not follow A.I.D. policies and procedures to ensure that the grant recipient, the GOT, complied with the conditions precedent and covenants stipulated in the project grant agreement. The project grant agreement included six conditions precedent to be fulfilled before project funds could be released and eight covenants to be followed during the term of the project. Based on our review of USAID/T's project files and our discussion with responsible officials, the GOT had met only two of the conditions precedent and three of the covenants. Our review showed that there were no local Mission procedures for tracking compliance with conditions precedent and covenants.

The Mission Had No Formal Local Procedures For Ensuring the Completion of Conditions Precedent and Covenants

A.I.D. Handbook 3 Chapter 11 places responsibility for establishing and implementing procedures for monitoring grantees' compliance with conditions precedent and covenants on both the Mission Director and the Project Officer. The grant agreement between the GOT and USAID/T for the Computer Technology Project required that the GOT comply with fourteen conditions precedent and covenants. Based on our review of project files and our discussions with cognizant Mission officials, we determined that the GOT had only met five of the fourteen. Yet USAID/T allowed the project funds to be disbursed. There was no documentation showing that the GOT had complied with the other nine requirements of the agreement or justified any alterations to them. This situation occurred because USAID/T had no effective local internal control steps to ensure that the conditions were met or that the compliance was documented in the project files before project expenditures were made.

For this project, nothing came to nor was brought to our attention to indicate any material project shortcomings caused by this lack of monitoring and documentation procedures. However, we consider the lack of local procedures ensuring and documenting the completion of conditions precedent and covenants a reportable condition because it is a systemic internal control weakness that could negatively affect current and future USAID/T projects--projects which are projected to be larger with more complex conditions precedent. Thus, we are recommending the following corrective actions.

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

- 1.1 issue a Mission order that defines the duties and responsibilities of project personnel and Mission managers and establishes comprehensive procedures for monitoring and documenting the fulfillment of conditions precedent and covenants throughout project life, and**
- 1.2 until this is done, report the lack of an internal control procedure to ensure the grantee compliance with conditions precedent in its next Internal Controls Assessment to A.I.D./Washington.**

Per A.I.D. Handbook 3, Chapter 1: Mission Directors must ensure that an adequate system is established for monitoring conditions precedent and covenants and documenting these events. Such a system should ensure that all conditions precedent are met prior to disbursing A.I.D. funds. While the ultimate structure of this monitoring system will depend on the type of project and nature of the conditionality, the system also should clearly delegate responsibilities to specific officials. Chapter 11 of Handbook 3 states that, in most cases, the project officer is responsible for verifying compliance with conditions precedent. A.I.D. project implementation guidance also requires that the Mission issue a basic implementation letter (PIL) that specifically explains what documents are to be submitted by the grantee as evidence that they have complied with the conditions precedent and covenants set forth in the project agreement.

Conditions Precedent for the Computer Technology Project - Conditions precedent are provisions of the grant agreement considered essential to project implementation. They address specific, one-time actions which the host country must undertake in order to proceed with implementation or actions deemed necessary to optimize project results and/or benefits.

The grant agreement for the Computer Technology Project required that the GOT meet six conditions precedent during this project. The first condition was to be met prior to the first disbursement or issuance of documents authorizing disbursement of project funds. Five other conditions were to be met prior to subsequent disbursements for specific project activities. These six conditions precedent were that the grantee would:

1. provide the name of its representative(s) along with their specimens of signatures.
2. prior to any disbursement after November 30, 1986 provide a plan for assigning to IRSIT individuals returning from long term training in the U.S. under the Technology Transfer Project (number 664-0315).

3. prior to disbursement for computer hardware procurement provide evidence of a maintenance plan for the hardware.
4. prior to disbursement for research projects provide documentation that at least half the funding for the research comes from sources other than the CTP grant.
5. prior to disbursement for training provide a training plan (an annual training plan is acceptable) showing the candidates, the training program, date, and costs.
6. prior to disbursement for any pilot project provide documentation that the project meets criteria set forth in Annex I of the project agreement which in essence requires that all activities financed under the pilot project have a clearly defined proposal including a systematic approach to evaluating the cost effectiveness and cost benefit of the activity.

USAID/T issued a basic PIL on December 6, 1985, outlining all conditions precedent to be met prior to disbursement of project funds. Nevertheless, we found evidence that the GOT only met conditions precedent numbers 1 and 5. During our review of the USAID's project files, we found evidence that the GOT complied with condition precedent number 1 on December 12, 1985 when it designated its project representative and simultaneously forwarded his specimen of signature to the USAID. We also found that the GOT had complied with condition number 5 by submitting the list of the personnel to be trained in the coming year and a description of the anticipated training.

Concerning the remaining conditions, we found no evidence in the files that they were completed. Further, no one at USAID/T was able to provide further information on this subject.

Covenants for the Computer Technology Project - Covenants are continuous actions required of the host country which are not directly related to implementation, but are intended to create conditions related to but not a part of the project. These actions are, however, often critical to achieving the intended benefits from the project. Therefore, it is essential that the Project Officer give them as much attention as conditions precedent and monitor them accordingly during project life.

The grant agreement for the Computer Technology Project had eight special covenants that required

1. the signatories to establish an evaluation program, and the grantee to:
2. develop a plan detailing the role of IRSIT,

3. develop an acceptable research plan for IRSIT,
4. determine cost effectiveness of pilot projects,
5. establish plans for the utilization of computers in the national education system,
6. establish plans for the utilization of computers in the higher education system,
7. coordinate all project activities to ensure their harmonious implementation, and
8. provide management support for the project.

We found no systematic documentation on what was or was not done concerning the adherence to the covenants. However, we did find evidence in the USAID's files that some of the covenants were met through the normal course of events. Precisely, there was evidence that an evaluation was conducted, that there was a plan defining IRSIT's role, and that the GOT was providing management support to the project. On the other hand, we found no evidence in the project files that the other five covenants were satisfied. Further, no one at USAID/T was able to provide further information on this subject.

We believe that lack of information within USAID/T on the GOT's adherence to the project's conditions precedent and special covenants occurred because USAID/Tunisia had not established the internal control procedures to ensure that the GOT or any other grantee complied with them. As stated earlier, the Mission's control system focuses on evaluation and not on monitoring. Why these procedures were not established was difficult to establish, in view of the turnover in project officials during the project's seven year life span. By their nature, conditions precedent and covenants can only be tracked and monitored through monitoring process which includes a systematic documentation effort.

Adherence to conditions precedent and covenants is considered an important part of development activity. However, we found no evidence of project implementation problems caused by USAID/T's lack of required monitoring and documentation of them.

While we may not comment on the degree of success of the project, our review of USAID/T's files and our discussions with GOT officials, who were responsible for project implementation, pointed out factors explaining the absence of problems. First, there was strong GOT support for the project--the project manager reported to the President of Tunisia. Second, the project had talented and dedicated personnel and a strong technical advisor provided by the U.S. contractor. Third, many implementation activities took place even though they were not documented. Mission officials had a

tendency to monitor the project informally through undocumented phone calls and site visits. For example, notwithstanding the lack of a formal maintenance plan in Mission files, certain equipment purchased with project funds was working and was being serviced by GOT technicians or local dealers through maintenance contracts.

Management Comments and Our Evaluation

Management agreed with Recommendation No. 1. They issued a New Mission Order No. 3:017 which defined the duties and responsibilities of project personnel and Mission managers and established comprehensive procedures for monitoring and documenting the fulfillment of conditions precedent and covenants throughout project life. The Mission also submitted an internal controls assessment to AID/Washington reporting the lack of an internal control procedure to ensure grantee compliance with conditions precedent.

We agree with the Mission that the above actions are sufficient to resolve and close Recommendation No. 1 parts one and two upon report issuance.

Did USAID/Tunisia follow A.I.D. policies and procedures in monitoring, reporting on and evaluating inputs, expenditures, outputs, purpose, goals, and completion of the Computer Technology project?

As discussed above, we cannot fully answer the audit objective. However, based on the information that USAID/T did provide to us and the tests we were able to perform, two problem areas in USAID/T's internal control system came to our attention, i.e. USAID/T lacked (1) specific guidance for project officers on how to systematically monitor projects and properly document that effort and (2) systematic management review of the monitoring and documentation process to ensure its accomplishment.

Project Officers Had No Local Implementing Guidance on Systematically Monitoring and Documenting Project Activities

A.I.D. Handbook 3 Chapter 11 provides details to project officers on how to monitor project implementation. This Handbook requires that USAIDs prepare local implementing guidance for project monitoring and explains documentation requirements. Our review of the USAID's project files showed an inconsistent and incomplete monitoring and documenting effort. For example, there were no site visit reports in the project files as required by the Handbook. This condition stemmed from two main causes: there was no local Mission guidance for project officers on monitoring and documenting project activities and there was no systematic oversight of the documentation process. During our review, we found no material negative effect on the project itself.

However, these internal control weaknesses do pose a potential pitfall for current and future, more complex projects unless corrected.

Recommendation No. 2: We recommend that the Director, USAID/Tunisia

- 2.1 establish local guidelines for project officers for monitoring and documenting project implementation activities;**
- 2.2 establish local Mission procedures for systematic management review of project files to ensure they comply with A.I.D. Handbook 3 and Mission monitoring requirements; and**
- 2.3 report the lack of an internal control procedure to ensure the project monitoring and documentation in accordance with A.I.D. Handbook 3 requirements in its next Internal Controls Assessment to A.I.D./Washington.**

We found that USAID/T's monitoring of the Computer Technology Project needed strengthening in the following areas: site visits and project documentation.

Site Visits Were Not Planned or Documented - Per A.I.D. Handbook 3 Appendix 11 C, Mission officials must perform as part of their monitoring duties physical inspections of the activities for which they are responsible. In addition, officials must document the purpose, coverage, and results of those site visits. The basis for a site visit is frequently the reports from a previous visit. In fact, the Handbook refers to site visits and the subsequent reports as "...essential management tools...." Specifically, the site visits and reports can form the basis for judging project performance by identifying deviations from the implementation plans. This in turn allows managers to isolate problem areas and identify necessary corrective actions.

We found that the Mission not only performed few site visits (limited to the vicinity of Tunis) but also did not document their visits' planning, scope, or findings. There was no evidence that site visits or reports thereof were used to help Mission managers oversee the project. We attribute the small number of site visits coupled with their lack of documentation to the incomplete monitoring guidance and the lack of systematic management review of the project monitoring process.

Through telephonic and written exchanges, the last project officer, who had departed post prior to the audit, told us that he visited project sites but only in the Tunis area. He explained that based on his positive assessment of the host country management of project equipment in Tunis, he concluded that it was not necessary to expand his site visits to the rest of the country. The project officer neither documented the visits he made nor his rationale for not visiting the remote project locations.

The bulk of the project activities did take place in Tunis. Most of the project technical assistance and commodities were dedicated to IRSIT activities in Tunis. IRSIT itself only had two pilot projects outside of Tunis. On the other hand, the second major project activity related to promoting and improving computer literacy in secondary schools had large numbers of microcomputers (PCs) distributed among six model schools around the country. While the dollar amount of these commodities was small when compared to IRSIT's equipment, their value to the success of this project segment was high, as was the exposure of this U.S. assistance to this Arab country's youth.

Therefore, we did not agree with the project officer's position that no visits outside the Tunis area were necessary. So, we performed end-use checks of the project equipment ourselves. We visited four of the six model schools located in three different cities, in order to verify the controls over and conditions of the computer equipment. This constituted over 40 percent of the microcomputers provided to INBMI.

During these visits, we found only minor instances of non operating equipment due to non-availability of spare parts. Otherwise, nothing came to our attention to indicate that project assets were not well maintained and/or controlled under the CTP project. Nonetheless, we believe that the absence of a system ensuring that site visits are undertaken and documented would deprive Mission managers of an essential information for assuring the implementation and completion of future projects.

Project Documentation Was Not Complete - As stated in A.I.D. Handbook 3 Appendix 11E, titled **Specific Monitoring Responsibilities**, proper development and maintenance of project files is one of the most important responsibilities of the Project Officer. This section makes it incumbent upon the project officer to gather and properly maintain project information needed to ensure and record successful completion of the project and to support subsequent evaluations by outside groups. The Handbook also provides guidance on what the project files should contain and how they should be organized.

Beyond the administrative rationale provided by the Handbook, we believe there are important management reasons for maintaining project files. It is these files that form the basis for Mission managers' and the project committee's review of the project status beyond the formal Project Implementation Review and the Annual Budget Review process. Further, these files also serve as a knowledge base and management tool for new or replacement project officers. It is not uncommon in USAIDs for officer rotation schedules to conflict with the project schedules. The Computer Technology Project, for example, had five project officers.

The presence or absence of project documentation provides managers, evaluators and auditors clues on project status and problem areas. We have highlighted two instances of missing project documentation that indicated to us that there were monitoring deficiencies that required further investigation. A third was in the area of procurement oversight. One of the specific monitoring responsibilities cited in Handbook 3, Appendix

11E is to assure the procurement is in compliance with A.I.D. regulations. When we found no documentation to support procurement waivers, we were concerned and looked further.

More than a third of the U.S. Government contribution to the Computer Technology Project (about \$1.3 million) was spent on the procurement of computer hardware and software. Project planners had emphasized that this equipment was essential for the project's success. While reviewing project files, we noted that

- there was minimal evidence of involvement by A.I.D./Washington's Office of Information Resources Management (IRM) and
- there was no evidence justifying the waivers to purchase equipment from European vendors.

Again, no one in USAID/T was able to provide more information on this issue. So we contacted the contractor AED, IRM officials, and the last project officer to obtain further information on how the procurement was handled. We were not able to reach the project's resident advisor.

We eventually received the information to justify the waivers and to demonstrate IRM's involvement in the procurement. But, this result required the efforts of several officials in several organizations. An evaluation team or a non-federal audit team performing a project close-out audit most likely would have found the same documentation deficiencies and asked the same questions. If the required documentation had been in the project files, this expense of staff time to do the research and write answers to our questions would not have been necessary.

These monitoring and documentation deficiencies occurred because USAID/T had not established the internal control procedures to ensure that project monitoring was conducted in accordance with Handbook guidance. Specifically, there were no Mission procedures to guide project officers on systematic monitoring and documenting of project activities and there was no systematic management oversight of the process. As stated earlier, the Mission's control system focuses on evaluation and not on monitoring.

The inclusion of sound internal controls in the form of (1) guidance on monitoring and documentation for project officers and (2) procedures for systematic review of the monitoring process for Mission managers and project committees will significantly enhance project monitoring by keeping Mission managers informed of project status and will provide project history for others, such as evaluators and auditors.

Management Comments and Our Evaluation

Management agreed with Recommendation No. 2. They informed us they are in the process of issuing a Project Officers Monitoring Requirements Mission Order. Also, the

Mission submitted an internal control assessment to AID/Washington reporting the lack of an internal control procedure to ensure that project monitoring and documentation was in accordance with A.I.D. Handbook guidance.

Based on these actions, we consider Recommendation 2.1 and 2.2 to be resolved and 2.3 to be resolved and closed upon report issuance. Upon receipt of the above Mission Order, 2.1 and 2.2 can also be closed.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of USAID/T's internal controls related to each audit objective.

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards, except that USAID/T management would not provide us with a representation letter confirming, among other things, its responsibility for the internal controls related to the audit objectives or confirming whether or not there were any instances of noncompliance with A.I.D. policies and procedures or whether or not it had provided us with all the information related to this program.

USAID/T's refusal to make such written representations was based on instruction from the A.I.D./Washington Near East Bureau. Nonetheless, reluctance to sign a representation letter constitutes a limitation on the scope of the audit and is sufficient to preclude an unqualified conclusion on the reliability of the internal controls related to the audit objectives. A complete description of the representations USAID/T would not make is provided in the Scope and Methodology section of this report.

Generally accepted government auditing standards 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 to those controls applicable to the audit's objectives and not to provide assurance on USAID/T'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, determined whether they are in operation, and then 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

Under the Federal Managers' Financial Integrity Act and the Office of Management and Budget implementing policies, A.I.D. management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued

"Standards for Internal Controls in the Federal Government" to be used by Agencies in establishing and maintaining internal controls. The objectives of internal controls 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. 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 was to determine whether USAID/T followed A.I.D. policies and procedures in establishing an overall system for project monitoring. We reviewed the agency's internal controls relating to this objective. We are not, however, able to conclude on the reliability of these controls, as management was not willing or able to confirm in a representation letter essential information related to these controls.

Because of this lack of management information, we cannot therefore state positively that the internal controls relative to this objective are effective and can be relied on.

In answering this objective, we considered applicable internal control policies and procedures in A.I.D. Handbook 3 Chapter 11 and for the purpose of this report, categorized them as follows: the project monitoring, evaluation and reporting processes. We reviewed USAID/T's internal controls relating to these processes, and our tests showed that the Mission's system lacked procedures for project monitoring and management review of project files.

Conclusions for Audit Objective Two

The second audit objective was to determine whether USAID/T followed A.I.D. policies and procedures designed to ensure that the GOT fulfilled the conditions precedent of the Project's Grant Agreement before releasing project funds. In answering this objective, we considered applicable internal controls policies and procedures in A.I.D. Handbook 3 Chapter 11 and, for the purpose of this report, categorized them as follows: the monitoring, follow-up and reporting processes. We reviewed USAID/T's internal controls relating to these processes, and our tests showed that they were not well designed and, therefore not fully effective. The Mission did not establish local procedures for monitoring, follow-up, and reporting on conditions precedent. This weakness was not reported under the Federal Managers' Financial Integrity Act and we have issued a two part recommendation relating to this.

Conclusions for Audit Objective Three

The third audit objective was to determine whether USAID/T followed A.I.D. policies and procedures in monitoring, reporting on and evaluating inputs, expenditures, outputs, purposes, goals, and completion of the Computer Technology project. We reviewed the agency's internal controls relating to this objective. We are not, however, able to conclude on the reliability of these controls, as management was not willing or able to confirm in a representation letter essential information related to these controls.

Because of this lack of management information, we cannot therefore state positively that the internal controls relative to this objective are effective and can be relied on.

In answering this objective, we considered applicable internal controls policies and procedures in Handbook 3 Chapter 11 and in the AED contract and, for the purpose of this report, categorized them as follows: the monitoring process and the contractual requirements. We tested USAID/T's internal controls relating to these processes and found that these controls did not ensure that:

- site visits were made part of the Mission monitoring system; and
- project monitoring was not properly documented.

These weaknesses were not reported under the Federal Managers' Financial Integrity Act and we have issued a three part recommendation related to this.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/T's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards, except that management would not provide us with a representation letter affirming to the best of their knowledge and belief (1) their responsibility for compliance with laws and regulations, (2) whether or not there were any irregularities involving management or employees, (3) whether or not there were any instances of violations or possible violations of laws and regulations. A complete description of representations that USAID/T would not make is provided in the Scope and Methodology section of this report.

Management's refusal to make such written representations constitutes a limitation on scope of the audit and is sufficient to preclude us from designing our audit to provide reasonable assurance of detecting abuse and illegal acts and from giving an unqualified conclusion on compliance with A.I.D. Handbook 3, Chapter 11.

Generally accepted government auditing standards 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 and illegal acts that could significantly affect the audit objectives) and (2) report all significant instances of noncompliance and abuse and all violations or instances of illegal acts that could result in criminal prosecution that we found during or in connection with the audit.

We tested USAID/T's compliance with the applicable laws and regulations and provisions of the technical assistance contract affecting our audit objectives. However, our objective was not to provide an opinion on USAID/T's overall compliance with provisions of such laws, regulations and contracts.

General Background on Compliance

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

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

Conclusions on Compliance

We reviewed USAID/T's compliance with A.I.D. Handbook 3 Chapter 11 and other applicable laws and regulations. However, as management was not willing or able to confirm in a representation letter essential information related to such compliance, we cannot therefore state positively that USAID/T has complied. However, based on the information that USAID/T did provide to us and the tests that we were able to perform, we noted that USAID/T failed to comply with A.I.D. Handbook 3 Chapter 11 requirements to monitor and document grantee compliance with four out of the six conditions precedent and five of the eight covenants of the grant agreement (see pages number 8, 9 and 10).

SCOPE AND METHODOLOGY

Scope

We audited USAID/T's Computer Technology project in accordance with generally accepted government auditing standards except that USAID/T management would not provide us with a representation letter (even though we requested it) confirming information essential to fully answer the audit objectives. Management's refusal to make such written representations constitutes a limitation on the scope of the audit. The information that USAID/T managers would not confirm, to the best of their knowledge and belief, is whether:

1. they are responsible for the internal control system, compliance with applicable laws and regulations, the fairness and accuracy of accounting and management information for the Mission;
2. they have provided us with all the financial and management information associated with the activity or function under audit;
3. they know of any irregularities in the activity;
4. they know of any material instances where financial or management information have not been properly and accurately recorded and reported;
5. they are aware of any instances of noncompliance with A.I.D. policies and procedures or violations of laws and regulations;
6. they have complied with contractual agreements; and
7. they know of any events subsequent to the period under audit that could affect the above representations.

The answers to the above questions are so fundamental to the basic concepts of auditing that it is not possible to render a positive conclusion without them.

Thus if managers will not answer these basic questions and will not confirm their answers in writing through a representation letter, then we cannot risk giving a positive opinion when managers will not even confirm to us what they know.

While we cannot render a positive conclusion without such representations, this lack of a management confirmation does not preclude us from reporting on any problem areas that came to our attention and we have done so.

We conducted the audit from August 7 through October 11, 1991 and covered the systems and procedures relating to the Mission systems for project monitoring and evaluation, follow-up of conditions precedent and monitoring of project's inputs, outputs and contractor performance as applied primarily under the Computer Technology project. The audit covered \$3.5 million in A.I.D. expenditures as well as \$7.175 million equivalent in G.O.T. expenditures. The audit was conducted at the USAID/T, IRSIT, CNI, CBMI/INBMI, four model schools in the cities of Tunis, Gafsa, and Sfax.

The audit did not assess:

- The reliability of project financial data generated by the Mission's Accounting and Control System (MACS).
- The accuracy and validity of contractor billings since support documentation for contractor invoices were maintained at their home office in Washington.
- The selection procedures of participant trainees.

Methodology

Audit Objective I

To accomplish this objective, we considered related criteria in A.I.D. Handbook 3, assessed internal controls and determined whether the Mission's monitoring, evaluation and reporting system was consistent with Handbook standards. Our work included examination of Bureau guidelines, mission orders, implementation letters, contracts, grant agreements, project papers, implementation reports, and various monitoring documentation such as memoranda, cables and other correspondence selected on a judgmental basis. In addition, we interviewed Mission and GOT officials and inspected selected project locations.

Audit Objective II

To accomplish this objective, we reviewed all conditions precedent and all special covenants of the Computer Technology Project. We considered project grant agreement provisions and criteria in Handbook 3, assessed Mission's internal controls and determined whether the Mission's monitoring of conditions precedent was in compliance with Handbook 3 and agreement requirements.

Audit Objective III

To accomplish this objective we considered related criteria in A.I.D. Handbooks 1, 3, 14, the USAID/Controller's Guidebook, Payment Verification Policies 1 and 5 and other applicable policies and procedures in monitoring project inputs, expenditures, and contractor performance. We reviewed contractor acquisition of commodities including bidding procedures, IRM involvement, reasonableness of price, source and origin of commodities and obtainment of waivers whenever applicable. We reviewed contract files to determine (1) allowable forms of contracts were selected, (2) proper competitive procedures were followed in selecting contractors, (3) contracts provided reasonable assurance that the necessary services would be provided on time and at a fair price, (4) contracts were expeditiously awarded and (5) contractors were capable of performing according to the terms of the contracts. We determined whether contractors performed in accordance with statements of work by interviewing project officials, inspecting implementation and reviewing evaluation and reports. Our work included assessment of related internal controls and examination of procurement plans, project agreements, contracts, advertisements, statements of work, selection panel results, costs proposals, biographic data of contractor personnel, workplans, administrative approval of vouchers, financial and implementation reports. Our tests done on a judgmental basis covered the principal technical service contract and other selected subcontracts.

ACTION: RIG INFO: EXEC

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LOC: 290 676
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 CN: 34396
 CHRG: RIG
 DIST: RIG

ADMIN FOR RIG/A, PAUL E. ARMSTRONG

E.C. 12356: N/A

SUBJECT: RESPONSE TO DRAFT AUDIT REPORT OF
 - USAID/TUNISIA'S MANAGEMENT OF THE COMPUTER
 - TECHNOLOGY PROJECT (PROJECT NO. 664-0334)

REF: (A) DAKAR 00971, (B) TUNIS 01025

1. MISSION HAS REVIEWED THE SUBJECT DRAFT AUDIT REPORT AND APPRECIATES THE OPPORTUNITY TO COMMENT. PARAS 2 AND 3 BELOW PROVIDE SOME GENERAL COMMENTS WHILE PARA 4 PROVIDES SPECIFIC RESPONSES TO AUDIT RECOMMENDATIONS.

2. GENERAL COMMENTS:

(A) THERE IS A STATEMENT ON PAGE 11 THAT THERE ARE FIVE RECOMMENDATIONS IN THE REPORT. YET ON PAGE 8 IS LISTED RECOMMENDATION NO. 1 AND ON PAGE 14 IS LISTED RECOMMENDATION NO. 2. NOWHERE ELSE IN THE REPORT IS THERE REFERENCE TO ADDITIONAL RECOMMENDATIONS.

(B) THE SUBJECT DRAFT AUDIT REPORT STATES THAT THE MISSION IS REQUIRED TO CODIFY THE PROJECT OFFICER'S MONITORING RESPONSIBILITIES THROUGH MISSION ORDERS. THERE IS NO SUCH REQUIREMENT IN HB 3 CHAPTER 11. THE MISSION DID PROJECT MONITORING BASED ON AID POLICY AS SET FORTH IN HB 13 EVEN THOUGH NO MISSION ORDER EXISTS WHICH SPECIFICALLY REQUIRED PROJECT MONITORING AS PROPOSED IN THE AUDIT REPORT.

(C) THE REFERENCE ON PAGE NO. 11 TO THE AGRICULTURAL POLICY IMPLEMENTATION PROJECT IS INCORRECT. THE PROJECT, AT THE TIME OF THE AUDIT, HAD A PACD OF APRIL 29, 1992. SUBSEQUENTLY THE PACD WAS AMENDED AND NOW THE PACD IS SEPTEMBER 30, 1992.

3. THE AMOUNT OF TIME AND SPACE ACCORDED TO THE DISCLAIMER ABOUT THE INABILITY OF THE AUDIT REPORT TO COMMENT ON TWO OF THE AUDIT OBJECTIVES, BECAUSE OF THE MISSION'S UNWILLINGNESS TO SIGN A REPRESENTATION LETTER, IS EXCESSIVE. REFERENCE TO SUCH UNWILLINGNESS ON THE PART OF THE MISSION TO SIGN A REPRESENTATION LETTER OCCURS NINE (9) TIMES, LEAVING FOR THE GENERAL READER THE IMPRESSION OF MISSION DELINQUENCY. ALTHOUGH THE MONITORING OF THE PROJECT MAY HAVE APPEARED TO BE LESS

THAN ADEQUATE, THE AUDIT OF THE PROJECT DID NOT FIND ANY ILLICIT ACTIVITIES WHICH OCCURRED DUE TO A LACK OF PRECISE INSTRUCTIONS FOR PROJECT MANAGERS IN PROJECT MONITORING.

4. RESPONSES TO RECOMMENDATIONS:

(A) RECOMMENDATION NO. 1: POINTS 1.1 AND 1.2 APPEAR TO HAVE BEEN CLOSED ALTHOUGH THE AUDITORS HAVE NOT SO STATED. POINT 1.1 WAS CLOSED BY THE ISSUANCE OF A NEW MISSION ORDER NO. 3:017 ON OCTOBER 16, 1991 (A COPY OF THE MISSION ORDER WAS PROVIDED TO THE AUDITORS). POINT 1.2 WAS EFFECTIVELY CLOSED WHEN THE MISSION SUBMITTED THE INTERNAL CONTROLS ASSESSMENT TO A.I.D./WASHINGTON ON NOVEMBER 30, 1991 .

(F) RECOMMENDATION NO. 2, POINT 2.3 IS CLOSED WHILE THE OTHER TWO POINTS WILL BE CLOSED WHEN THE PROJECT OFFICERS MONITORING REQUIREMENTS MISSION ORDER IS ISSUED. POINT 2.3 WAS EFFECTIVELY CLOSED WHEN THE INTERNAL CONTROLS ASSESSMENT WAS SUBMITTED TO AID/W. THE MISSION ORDER DESCRIBING PROJECT OFFICER RESPONSIBILITIES FOR PROJECT MONITORING AND REVIEW OF PROJECT FILES WILL CLOSE POINTS 2.1 AND 2.2.

(C) IN THE CASE OF POINT 1.2 AND POINT 2.3 UNDER RECOMMENDATION NOS. ONE AND TWO, RESPECTIVELY, THE MISSION POSITION IS THAT A RECOMMENDATION THAT AN ACTION OR NON-ACTION BE REPORTED IN AN INTERNAL CONTROL ASSESSMENT IS OUTSIDE THE PURVIEW OF THE AUDIT SCOPE.

MCCARTHY

BT

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