

**Regional Inspector General for Audit
Dakar**

**Audit of A.I.D. Management of Project Commodities
in Burkina Faso**

**Audit Report No. 7-686-92-08
June 22, 1992**



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

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June 22, 1992

MEMORANDUM

To: Wilbur G. Thomas, Representative, OAR/Burkina Faso

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

Subject: Audit of A.I.D. Management of Project Commodities in Burkina Faso, Audit Report No. 7-686-92-08

Enclosed are five copies of the subject report. We have reviewed your comments in response to our draft audit report (Ouagadougou 002356) and have taken them into consideration in preparing this report. Your comments are included in their entirety in Appendix II herein.

Based on the actions taken all the report recommendations are considered resolved. Recommendation No. 2 part 2 is resolved with the issuance of Mission Order 92-02 on acquisition of non-expendable property. This recommendation will be closed when we receive and accept Mission Order 92-02.

Recommendation No. 1 parts 1 and 2 and Recommendation No. 2 parts 2 and 3 are also considered resolved. In order to close them the Mission needs to (1) report the internal controls deficiencies addressed by those recommendations in accordance with the Federal Manager's Financial Integrity Act and State cable 331258 instructions and (2) advise us that the FSN management office employee has returned from training and is performing satisfactorily. I greatly appreciate the cooperation and courtesies extended to the RIG/A/D staff during the audit.

Att.: A/S

EXECUTIVE SUMMARY

Background

A.I.D. missions may procure project commodities using a "Project Implementation Order/Commodities" (PIO/C) to authorize the action. They then monitor the arrival, receipt, utilization and storage of the commodities. Since January 1989, OAR/Burkina Faso has issued 12 PIO/Cs which resulted in the purchase of over \$512,000 in project commodities, (see Exhibit A).

Audit Objectives

The Office of the Regional Inspector General for Audit/Dakar conducted a performance audit of A.I.D.-managed project commodities in Burkina Faso in accordance with generally accepted government auditing standards, (see Scope and Methodology, Appendix I). The work was conducted from January through March 1992 and was designed to answer the following questions:

1. Did OAR/Burkina Faso follow A.I.D. policies and procedures in awarding contracts for A.I.D.-financed project commodities? (see page 3)
2. Did OAR/Burkina Faso follow A.I.D. policies and procedures in monitoring the (a) arrival, (b) receipt, (c) utilization, and (d) storage of A.I.D.-financed project commodities? (see page 6)
3. Did OAR/Burkina Faso follow A.I.D. policies and procedures in making payments for A.I.D.-financed project commodities? (see page 9)

Summary of Audit

The audit found that OAR/Burkina Faso followed A.I.D. policies and procedures in awarding contracts for A.I.D.-financed project commodities. However, the Mission's internal control system for contract awards did not fully comply with the GAO specific standard concerning separation of duties, (see page 4). In addition, the audit found that the Mission followed A.I.D. policies and procedures in monitoring the receipt, use and storage of those A.I.D.-financed project commodities procured directly by the Mission. However, the Mission's system for recording of commodity arrivals for subsequent tracking and control was not consistently implemented (see page 7). Finally, the audit

found that the Mission generally followed A.I.D. policies and procedures in making payments for A.I.D.-financed project commodities (see page 9).

Audit Findings

Commodity Procurement Functions Are Not Separated From The Project Offices

GAO internal control standards state that the key duties of authorizing and processing a transaction should be kept separate. In OAR/Burkina Faso, the individuals assigned to the project offices both establish the requirements for project commodities and process much of the actual buying in contrast to the general agency policy of assigning the latter function to a separate office. The failure to separate these two key duties developed in part because the Mission's direct hire staff had been reduced from twenty two to five since 1987, and in part because the past and current Mission Management Officers were not considered trained enough to assume this responsibility. While our audit tests did not show any instances of fraud or abuse, it is our opinion that the Mission's internal control system would be strengthened and the risks of procurement fraud or abuse reduced if the buying function was separated from the function that establishes the actual requirements, (see page 4).

Documenting Commodity Arrivals Needs To Be Implemented Consistently

A.I.D. policy states that the system used to document project commodity arrivals and disposition must include enough information to conduct inquiries into how the commodities are actually being used. OAR/Burkina Faso had some written instructions from the Mission Controller which would have provided this information, but these instructions were not consistently followed. Physical assets could not be readily reconciled to project ledgers, and auditor inquiries into how these commodities were finally put to use could not be easily carried out. This condition developed because the instructions were not formalized in a Mission Order, and the employee charged with recording the inventory was not trained to handle such responsibilities, (see page 7).

Summary of Recommendations

We recommend that the USAID Representative, OAR/Burkina Faso take the following actions:

- separate the commodity procurement functions (see page 4).
- until the above action is completed, report this internal control weakness in accordance with the Federal Manager's Financial Integrity Act (see pages 4 and 12).

- issue a mission order on commodity inventory control procedures (see page 7).
- train employee(s) charged with implementing this order (see page 7).
- until the above two actions are completed, report this internal control weakness in accordance with the Federal Manager's Financial Integrity Act (see pages 7 and 13).

Management Comments and Our Evaluation

OAR/Burkina Faso agreed with our findings and recommendations and took prompt action to address recommendation 2.1 by issuing Mission Order 92-02. As a result the above recommendation is considered resolved and will be closed when RIG/A/D receives Mission Order 92-02 and determines it satisfactory.

To address recommendations 1.1, 1.2, 2.2 and 2.3 OAR/Burkina has sent the FSN management office employee for on-the-job training in Niamey until 9/30/92. The recommendation is therefore resolved and will be closed when RIG/A/D is informed that the FSN employee has returned to Burkina Faso and is performing her management duties satisfactorily.

Office of the Inspector General
Office of the Inspector General
June 22, 1992

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INTRODUCTION

Background

A.I.D. missions themselves may procure commodities for their bilateral projects. If a mission elects to use this method, it assumes direct responsibility for the procurement. The project officer ensures that a Project Implementation Order/Commodities (PIO/C) is prepared to authorize the purchase, and an authorized A.I.D. representative signs the contract to order the commodities. The project officer then tracks the order to ensure that the commodities concerned have actually arrived and been put to use. Final payment is made to suppliers based upon a request for payment from the contractor.

Since January 1, 1989, OAR/Burkina Faso issued 12 PIO/Cs which ultimately authorized the purchase of over \$512,000 in project commodities. Exhibit A is a summary of those purchases.

Audit Objectives

The Office of the Regional Inspector General for Audit/Dakar conducted a performance audit of A.I.D.-directly procured project commodities in Burkina Faso to answer the following audit objectives:

1. Did OAR/Burkina Faso follow A.I.D. policies and procedures in awarding contracts for A.I.D.-financed project commodities?
2. Did OAR/Burkina Faso follow A.I.D. policies and procedures in monitoring the (a) arrival, (b) receipt, (c) utilization, and (d) storage of A.I.D.-financed project commodities?
3. Did OAR/Burkina Faso follow A.I.D. policies and procedures in making payments for A.I.D.-financed project commodities?

In answering these audit objectives, we tested whether OAR/Burkina Faso (1) followed applicable internal control procedures and (2) complied with certain provisions of laws, regulations, grants, and contracts. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the

audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, OAR/Burkina Faso 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 OAR/Burkina Faso was not following a procedure or not complying with a legal requirement;
- to identify the cause and effect of the problems; and
- to make recommendations to correct the condition and cause of the problems.

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

REPORT OF AUDIT FINDINGS

Did OAR/Burkina Faso follow A.I.D. policies and procedures in awarding contracts for A.I.D.-financed project commodities?

OAR/Burkina Faso followed A.I.D. policies and procedures in awarding contracts for A.I.D.-financed project commodities. However, the Mission's internal control system for contract awards did not, in our opinion, fully comply with the GAO specific standard concerning separation of duties.

A.I.D. uses a Project Implementation Order/Commodities (PIO/C - Form A.I.D. 1370-1) to implement a requirement for project commodities. Once the requirement has been established, A.I.D. policy as spelled out in A.I.D. Handbook 1, Supplement B Section 12B, Paragraph 2a. (2) requires missions to apply the Federal Acquisition Regulation (FAR) and the supplemental A.I.D. Acquisition Regulation (AIDAR - A.I.D. Handbook 14) whenever they sign a contract to acquire project commodities. Using this guidance, we selected four specific attributes and tested them against our audit sample (see Appendix I for a discussion of our audit methodology).

The audit sample included the 23 award actions shown in Exhibit B, 14 of which were awarded by the Mission (the remaining 9 awards were made by an agency outside Burkina Faso). Our tests on these 14 awards showed that OAR/Burkina Faso complied with all four attributes evaluated. First, the responsible project officer authorized each commodity requirement through the use of a Project Implementation Order as prescribed by A.I.D. procedures. The Mission solicited a reasonable number of sources for each procurement, and it also issued written solicitations for negotiated contracts exceeding \$25,000. Finally, the Mission documented the basis for determining the fairness and reasonableness of the price paid for all small purchases over \$1,000.

However, the Mission's internal control system over contract awards for project commodities did not, in our opinion, fully comply with GAO specific standards. The buying function was integrated within the project offices which also established the requirements. It would be more appropriate to transfer the buying function to the management officer as is the general procedure within the Agency.

**Commodity Procurement Functions
Are Not Separated From The Project Offices**

GAO internal control standards state that the key duties of authorizing and processing a transaction should be kept separate. In OAR/Burkina Faso, the individuals assigned to the project offices both establish the requirements for project commodities and process much of the actual buying in contrast to the general agency policy of assigning the latter function to a separate office. The failure to separate these two key duties developed in part because the Mission's direct hire staff had been reduced from twenty two to five since 1985, and in part because the past and current Mission Management Officers were not considered trained enough to assume this responsibility. While our audit tests did not show any instances of fraud or abuse, it is our opinion that the Mission's internal control system would be strengthened and the risks of procurement fraud or abuse reduced if the buying function was separated from the function that establishes the actual requirements.

Recommendation No. 1: We recommend that the USAID Representative, OAR/Burkina Faso:

- 1.1** transfer the commodity procurement functions from the project offices to the management office as soon as the latter office has a fully-trained purchasing agent available; and
- 1.2** until the above action is completed, report this internal control weakness in accordance with the Federal Manager's Financial Integrity Act and State cable 331258 instructions.

The General Accounting Office's (GAO) *Assessing Internal Controls in Performance Audits* states that "...key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals." A recognized good business practice is to separate those activities which establish an entity's requirements from those activities which perform the actual procurement. In Handbook 23 (paragraph 1B.6), Functions of the Executive Officer, A.I.D. has implicitly recognized this good business practice because it assigns the mission-level contracting functions including the procurement of program commodities to the Executive Officer.

OAR/Burkina Faso does not have an Executive Officer; nevertheless, the Mission does have an administrative management position which would normally report to that officer. The individual who currently serves in this position already does much of the Mission's purchasing for its operating expenses. This person's authority could logically be extended to include project commodity procurement.

In OAR/Burkina Faso, however, project commodity procurement responsibility has not been given to an administrative officer. Instead, the project offices not only prepare the

PIO/Cs which authorize the purchase of project commodities, they also do the actual purchasing as well. Personal services contractors (PSC) assigned to these offices write the PIO/Cs which establish the requirement for the commodities. These same PSCs also perform contract award functions such as soliciting vendors, selecting suppliers and justifying the award. While both the PIO/Cs and the contract awards are reviewed and approved by higher level authorities, the combination of two separate types of duties and responsibilities into one office/individual does not, in our opinion, represent a satisfactory internal control situation.

This situation developed in part because the Mission's direct hire staff had been reduced from twenty two to five, and in part because both the past and current administrative management officers were not considered trained enough for this responsibility. According to the Mission Program Officer, the level of mission staffing has been steadily reduced since 1985 because of political differences with the Government of Burkina Faso. At its high point, the A.I.D. program in Burkina Faso had a staff of twenty two direct hires but now only five remain. According to the Mission Controller, purchasing responsibility for project commodities has been retained in the project offices because both the current and past administrative management officers lacked sufficient training to assume this responsibility. However, the incumbent management officer is being trained and can soon take over purchasing responsibilities.

We did not find any evidence of any fraud or abuse in the current situation. Nevertheless, we believe that the potential for such abuse could be reduced further if the purchasing function were transferred outside the project offices to the management officer. We recommend that the Mission implement their tentative decision to give project commodity purchasing responsibility to the Administrative Management Officer as soon as practical.

Management Comments and Our Evaluation

The Mission agreed with Recommendation No. 1 and addressed it by issuing Mission Order 92-02 regarding acquisition of project non-expendable property and inventory control procedures over those non-expendable properties and by sending the FSN management office employee to training.

Recommendation No. 1 is therefore resolved. It will be closed when (1) we receive Mission Order 92-02 and find it satisfactory (2) when the Mission advises us that the employee in training has returned and is performing her duties satisfactorily.

Did OAR/Burkina Faso follow A.I.D. policies and procedures in monitoring the (a) arrival, (b) receipt, (c) utilization, and (d) storage of A.I.D.-financed project commodities?

OAR/Burkina Faso followed A.I.D. policies and procedures in monitoring the receipt, use and storage of those A.I.D.-financed project commodities procured directly by the Agency. However, the inventory records were not always complete enough to trace commodity purchases from the time of their receipt through storage to final utilization.

The Mission management of project commodity receipt, utilization and storage was found acceptable. Our audit sample, which in the case of receipt and utilization testing excluded the six contraceptive orders, included 64 line items. Our tests showed that 62 of these 64 items had arrived, and all 62 of these arrivals were supported by properly-prepared receiving reports. Furthermore, we tested 27 specific items from this group to determine whether they were being used for project purposes. These items included high-value commodities such as vehicles, camera equipment and photocopiers. We found no evidence that these items were being used for other than their intended purpose. In those cases where commodities were in storage (primarily contraceptives), we found that the items were safeguarded in a satisfactory manner. The storage areas were secured with locks, access to them was controlled by the storekeeper, and the contraceptives were protected by air conditioning.

We found that recording commodity arrivals for subsequent tracking and control was deficient and needed improvement.

**Documenting Commodity Arrivals
Needs To Be Implemented Consistently**

A.I.D. policy states that the system used to document project commodity arrivals and disposition must include enough information to conduct inquiries into how the commodities are actually being used. OAR/Burkina Faso had some written instructions from the Mission Controller which would have provided this information, but these instructions were not consistently followed because they had not been finalized and officially disseminated throughout the Mission. Physical assets could not be readily reconciled to project ledgers, and auditor inquiries into how these commodities were finally put to use could not be easily carried out. This makes end use checking more difficult than it needs to be. This condition developed because the instructions were not formalized in a Mission Order, and the employee charged with recording the inventory was not trained to handle such responsibilities.

Recommendation No. 2: We recommend that the USAID Representative, OAR/Burkina Faso:

- 2.1 issue a mission order requiring implementation of the commodity inventory control procedures proposed by the Mission Controller;**
- 2.2 ensure that employee(s) charged with implementing this order are trained to carry it out; and**
- 2.3 until the above two actions are completed, report this internal control weakness in accordance with the Federal Manager's Financial Integrity Act and State Cable 331258 Instructions.**

A.I.D. Handbook 15, Chapter 10, Commodity Arrival and Disposition, expresses the agency's policies and procedures concerning project commodity arrivals. According to paragraph 10B.2a. of that Handbook, the borrower/grantee must maintain a system of records to document the arrival and disposition of commodities financed by A.I.D. for project assistance. If the borrower/grantee does not have an approved system as is the case with the Government of Burkina Faso, then the Handbook states that the Mission Controller must establish an alternative system. Among other requirements, the system of records documenting project commodity arrivals and disposition must provide sufficient data for end-use investigations.

The Mission Controller had developed some interim instructions to control and track nonexpendable project commodities (nonexpendable project commodities are defined by the Mission as project inventory with a dollar value greater than \$500 except in the case of household furnishings where the dollar threshold was \$150). These instructions specified that the inventory records should contain the commitment document under which the item was purchased, the receiving report reference number, serial numbers (when available), item description and location. In our opinion, such information would be essential for our other audit work including our end-use investigations.

However, we found that the records were not sufficient for our use. The Mission Management Office, which was responsible for implementing this system, could only produce a list of item descriptions and internal identification numbers. This list was supplemented by stock cards which gave some additional details but not always in a consistent manner. For example, these cards did not always show the commitment document numbers or the receiving report reference numbers which we considered necessary if we were to readily track items in the inventory to receiving reports and purchase documents. As a result, reconciliation could not be readily made between the physical assets and the project ledgers. We were forced to use alternative and more time consuming ways to check on the end use of the specific project commodities identified in our sample because we could not easily go from a purchase document to the actual physical asset recorded in that document.

This condition developed because (1) the employee in charge of the inventory was not properly trained to handle such responsibilities and (2) the Mission had written interim instructions but they were not consistently followed because they had not been finalized and officially disseminated throughout the Mission.

We recommend that the Mission ensure that the employee charged with this responsibility be trained to carry it out and that a Mission Order be issued requiring that the interim guidance given by the controller be implemented.

Management Comments and Our Evaluation

The Mission agreed with recommendation No. 2 and issued Mission Order 92-02 on Management of non-expendable property. In addition, they sent the management office FSN staff for training. As a result the recommendation is resolved and will be closed when (1) we receive Mission Order 92-02 and review it to our satisfaction (2) the management office FSN staff has completed her training and is performing adequately.

Did OAR/Burkina Faso follow A.I.D. policies and procedures in making payments for A.I.D.-financed project commodities?

For the items tested, OAR/Burkina Faso followed A.I.D. policies and procedures in making payments for A.I.D.-financed project commodities. We specifically tested 10 Mission-recorded payment vouchers for the following procedures:

- Did the Mission Controller secure from the responsible project officer the administrative approvals for payments required by A.I.D. Handbook 19, 3H.2.(c)?
- Did the Project Officer return the administrative approvals to the Mission Controller within 5 days as required by A.I.D. Handbook 19, 3H.2.(e)?
- Did the Mission Controller insure that amounts claimed for payment were reconciled with the corresponding obligating documents, administrative approvals, invoices and receiving reports as required by the controller's guidebook chapter 5 section 3?

The Mission recorded payments on 16 of the 23 awards included in our audit sample. One of the seven remaining awards had not been paid because the commodities ordered under it had not been delivered. The other six awards were for contraceptives. Three of these orders had been delivered, but the actual payment amount had not been reported to the Mission by the Washington-based ordering agency. The other three orders had not been delivered at the time we concluded the audit.

We selected 10 payment vouchers from this sample to verify whether the Mission had observed the three aforementioned procedures. These 10 vouchers authorized the payment of \$141,148 for project commodities. Our tests showed that the Mission Controller obtained project officer administrative approval in every instance. We found that the project officer also returned payment requests to the paying office within 5 days as required by A.I.D. prompt payment policies and procedures. We also found that prior to each payment the controller had in all instances compared amounts claimed for payments with obligated amounts in contracts and purchase orders to avoid potential disbursements; finally we found that all payments had been made against solid supporting documentation including invoices and receiving reports. Given these results, we decided to terminate further testing in order to save audit time.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of OAR/Burkina Faso's internal controls related to each audit objective.

Scope of Our Internal Control Assessment

We performed our audit in accordance with 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 to those controls applicable to the audit's objectives and not to provide assurance on OAR/Burkina Faso'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 were 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 Manager's 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 (GAO) has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such 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 abuse; 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

Did OAR/Burkina Faso follow A.I.D. policies and procedures in awarding contracts for A.I.D.-financed project commodities?

The first audit objective required a review of the internal controls over contract awards for mission-procured project commodities. In answering this objective, we classified the contract award process into two categories: the requirements authorization operation, and the commodity purchasing operation. We first considered the requirements of Handbook 15, Appendix D7 which described A.I.D. procedures for implementing a requirement for project commodities. We then considered the requirements of Federal Acquisition Regulation (FAR) paragraphs 13.106, 15.401 and 15.402 as well the requirements of A.I.D. Acquisition Regulation (AIDAR) paragraph 706.302-70. Finally, we also considered the GAO-prescribed standards for internal controls.

We reviewed the Mission's internal controls related to the awarding of contracts for A.I.D.-financed project commodities. Our tests showed that the Mission's controls were logically designed and consistently applied except that the Mission Director allowed the project offices to do the actual purchasing of commodities as well as establish the requirement for them. These two key duties and responsibilities should be assigned to separate individuals as provided in the GAO specific standard concerning the separation of duties (see page 4).

This condition increased the risk of potential procurement fraud and abuse because two key contract award operations were essentially processed by one individual. This matter was not reported by OAR/Burkina Faso under the Federal Manager's Financial Integrity Act because the Mission Director thought that his role as Contracting Officer gave him sufficient control over the total process. We disagree with the Director and recommend that the deficiency now be reported.

Conclusions for Audit Objective Two

Did OAR/Burkina Faso follow A.I.D. policies and procedures in monitoring the (a) arrival, (b) receipt, (c) utilization, and (d) storage of A.I.D.-financed project commodities?

The second objective relates to the Mission's process for monitoring project commodities from the time they are purchased until the time they arrive in-country and are formally received. It also covers the time from receipt to final use and disposition including interim storage. In answering this objective, we considered the provisions of A.I.D. Handbook 1, supplement B, chapter 24; Handbook 3, supplement A, chapter II; Handbook 15, chapter 6, paragraph B; and Handbook 15, chapter 10. Part 4 of the Federal Acquisition Regulations. Finally, we also considered the GAO-prescribed standards for internal controls. For the purposes of this report, we classified the

Mission's internal control systems into two categories: the arrival and receiving operation, and the storage and disposition operation.

We reviewed the Mission's internal controls related to the arrival, receipt, utilization and storage of A.I.D.-financed project commodities. Our tests showed that the Mission's controls were logically designed and consistently applied except that physical assets could not be readily reconciled to project ledgers, and auditor inquiries into how these commodities were finally put to use could not be easily carried out because project ledgers had no reference to PIO/C number or other identification numbers which would have facilitated this process (see page 7). However, we conducted more extensive testing to achieve our objective of assessing whether these commodities were being used for the purposes intended.

This condition increased the risk that final end use of project commodity could not be readily verified. Although the Mission Controller had recognized the need to correct this problem, it had not been identified specifically and reported as a weakness under the Federal Manager's Financial Integrity Act. We recommend that the deficiency now be reported.

Conclusions for Audit Objective Three

Did OAR/Burkina Faso follow A.I.D. policies and procedures in making payments for A.I.D.-financed project commodities?

This objective relates to the Mission's system of ensuring that expenditures for directly-procured project commodities were reasonable, proper and allowable, and that payments were made within the time limits established by the Prompt Payment Act. In planning and performing our audit of this objective, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3, paragraphs 3H and 3I. For the purposes of this report we reviewed the administrative controls over voucher review and approval including compliance with the requirement of the Prompt Payment Act.

We reviewed the aforementioned Mission internal controls relating to making payments for A.I.D.-financed project commodities and our tests showed that these controls were logically designed and consistently applied.

REPORT ON COMPLIANCE

This section summarizes our conclusions on OAR/Burkina Faso's compliance with applicable laws, agreements 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 and 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 OAR/Burkina Faso's compliance with the following provisions of the Federal Acquisition Regulation (FAR) and the A.I.D. Acquisition Regulations (AIDAR):

- Contracting Officers should solicit proposals from a reasonable number of sources - FAR 13.106(b) and AIDAR 706.302-70(c)(1).
- Contracting Officers must issue written solicitations for negotiated contracts expected to exceed \$25,000 - FAR 15.401 (a) and 15.402 (b).
- Small purchases over \$1,000 must be supported by documentation showing the basis for determining the fairness and reasonableness of the price - FAR 13.106 (c).

Our objective was to examine the Mission's implementation of these regulations with respect to directly procured project commodities, and not to provide an opinion on overall compliance with such provisions.

General Background on Compliance

Noncompliance is failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants 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.

Conclusions on Compliance

With respect to directly procured project commodities, we found that OAR/Burkina Faso had complied with the provisions of the Federal Acquisition Regulation (FAR) and the A.I.D. Acquisition Regulation (AIDAR) concerning the solicitation of a reasonable number of sources, the use of written solicitations, and documentation of price reasonableness.

SCOPE AND METHODOLOGY

Scope

We audited OAR/Burkina Faso's procedures and controls to award contracts, monitor deliveries, and make payments for directly-procured project commodities. We conducted the audit field work from January 13 through March 13, 1992 and covered the systems and procedures relating A.I.D.-directly-procured project commodities authorized by a Project Implementation Order/Commodities (PIO/C) during the period from January 1, 1989 to December 31, 1991. The audit was conducted in accordance with generally accepted government auditing standards.

We conducted our field work in the offices of OAR/Burkina Faso and three commodity locations, all of which were located in Burkina Faso's capital, Ouagadougou, or that city's immediate environs. Our audit included an analysis of pertinent regulations, policies and procedures; interviews with responsible mission and Government of Burkina Faso officials; an examination of project commodity-related files, documents and accounting records; and physical observation of as many project commodities as necessary to reliably answer our objectives. No prior audits were consulted for this review as they did not focus on commodities. OAR/Burkina Faso officials also made various verbal representations concerning their management of project commodities which they confirmed in a management representation letter signed on March 11, 1992.

The audit initially looked at the Mission Operating Procedures and the latest Internal Control Assessment to assess how the Mission conducted its operations and what problems it perceived it faced. This initial assessment was subsequently validated through discussions with key Mission officials. Using this preliminary information, an audit universe was selected covering those project commodity purchases authorized by a PIO/C issued during FY 1989 to FY 1992. The Mission logs showed that the Mission issued 15 PIO/Cs during this time, three of which resulted in no awards because one was canceled, one was used to transfer funds, and the third was so recent that no awards had been made at the time we concluded the audit. The remaining 12 PIO/Cs resulted in 43 awards actions as summarized on Exhibit A. Exhibit B shows the 23 award actions which were audited. We verified the accuracy of the Mission's PIO/C log.

The audit team judgementally sampled 23 of the 43 awards. These 23 awards committed a total of \$441,073 or 86 per cent of the \$512,582 included in the universe. In

developing this sample, we selected the largest award made under PIO/Cs 90014, 90023, 90026, 90027, 90028, 90038, and 90039 (seven awards). In addition, we tested four awards under PIO/C 90029 and all twelve awards made under PIO/Cs 90025 and 10002. Under PIOC 10002 we selected six awards made in Washington. Because of limited time and resources we tested the six items under audit objective 2 for arrival and storage. In our judgement, this sample essentially covered the types of commodities which the Mission procured (vehicles, office equipment, furniture, contraceptives), and the type of awards that the Mission used (contracts, purchase orders, delivery orders, special ordering procedures for contraceptives).

Methodology

The methodology for each audit objective follows.

Audit Objective One

Did OAR/Burkina Faso follow A.I.D. policies and procedures in awarding contracts for A.I.D.-financed project commodities?

The guidance contained in A.I.D. Handbook 15, the A.I.D. Acquisition Regulation (AIDAR), and the Federal Acquisition Regulation (FAR) was used to develop the detailed audit steps. Included in these steps was an assessment of the overall internal control environment. The audit team tested the following four contract award attributes:

- (1) Requirements for project commodities are implemented through a properly executed Project Implementation Order/Commodity (PIO/C) - A.I.D. Handbook 15, Appendix D7.
- (2) Contracting Officers should solicit proposals from a reasonable number of sources - FAR 13.106(b) and AIDAR 706.302-70(c)(1).
- (3) Contracting Officers must issue written solicitations for negotiated contracts expected to exceed \$25,000 - FAR 15.401 (a) and 15.402 (b).
- (4) Small purchases over \$1,000 must be supported by documentation showing the basis for determining the fairness and reasonableness of the price - FAR 13.106 (c).

These attributes were selected because they were deemed important and could be readily checked and verified. The audit sample included 23 award actions, 14 of which were awarded by the Mission and could therefore be audited by the team in detail (the remaining 9 awards were made by an agency outside Burkina Faso). These 14 awards pertained to activities in Health, Population and Nutrition Office and the Agriculture Office. The team then reviewed documentation from the files of both the Mission Controller and the responsible project offices to confirm whether the Mission had

complied with FAR requirements. In those cases where the Mission appeared to be out of compliance, the audit team discussed the apparent noncompliance with responsible Mission personnel to gain an understanding of the situation and to determine whether the Mission had actually complied. We found no cases of actual non-compliance for the 4 attributes tested. Therefore our original sample size was not increased. Finally, the audit team validated its findings and conclusions with the Mission Controller and the Mission Director.

Audit Objective Two

Did OAR/Burkina Faso follow A.I.D. policies and procedures in monitoring the (a) arrival, (b) receipt, (c) utilization, and (d) storage of A.I.D.-financed project commodities?

The audit team first confirmed its understanding of the A.I.D. Handbook requirements concerning the arrival, receipt, utilization and storage of project commodities purchased directly by the Agency. We then tested the following attributes which in our judgement were essential to meet the requirements of this objective:

- (1) Did the Mission have a system of records to document the arrival and disposition of those commodities that it procured directly for the projects? - Reference A.I.D. Handbook 15, Paragraph 10C.2.d.
- (2) Were directly-procured project commodities received by the time specified in the authorizing Project Implementation Order/Commodity? - Reference A.I.D. Handbook 15, Appendix D7, Paragraph 9.1.
- (3) Was evidence available to show whether project commodities were received in the quantity and condition for which payment was made. - Reference A.I.D. Handbook 15, Paragraph 10B.2.a.(2).
- (4) Were project commodities used in accordance with project implementation plans? - Reference A.I.D. Handbook 15, Paragraph 10B.1.b.
- (5) Are storage facilities properly secured and is access controlled and limited?

The audit team confirmed that the Mission had interim written instructions from the Mission Controller to monitor commodity arrivals and receipt as well as procedures to record inventories. With regard to the specific attributes, and time scheduled for the audit, the team prepared spreadsheets listing each of the 23 awards judgementally selected for review and showing the attributes to be tested. The auditors then reviewed documentation from the files of both the Mission Controller and the responsible project offices to confirm whether the Mission had successfully completed each of the attributes. In addition, the team inspected three field sites where property was located to verify the

property's condition and utilization. In those cases where the team had questions concerning possible problems, it discussed the situation with responsible Mission personnel to gain an understanding of what happened and to determine whether comment in the audit report was appropriate. Finally, the audit team validated its findings with the Controller and Mission Director.

Audit Objective Three

Did OAR/Burkina Faso follow A.I.D. policies and procedures in making payments for A.I.D.-financed project commodities?

The audit team first confirmed its understanding of the A.I.D. Handbook requirements concerning the agency's policies and procedures in making payments for commodities delivered against A.I.D. direct contracts. The team discussed this objective with the Mission Controller and selected the following procedures for testing:

- (1) Did the Mission Controller secure from the responsible project officer the administrative approvals for payments required by A.I.D. Handbook 19, 3H.2.(c)?
- (2) Did the Project Officer return the administrative approvals to the Mission Controller within 5 days as required by A.I.D. Handbook 19, 3H.2.(e)?
- (3) Did the Mission Controller insure that amounts claimed for payment were reconciled with the corresponding obligating documents, administrative approvals, invoices and receiving reports as required by the controller's guidebook chapter 5 section 3?

The Mission had recorded payments on 16 of the 23 awards included in our sample. We judgementally selected 10 payment vouchers from this sample to test whether the Mission had followed these procedures. As we found no problems in the first 10 vouchers selected we terminated further testing in order to conserve audit time. Our findings were then validated with the Controller. Finally, we reviewed the latest Mission Internal Control Assessment to assess how the Mission conducted its operations relative to all three commodities audit objectives.

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ACTION: RIG INFC: EXEC

APPENDIX II

VZCZCDK0910
RR RUEHDK
DE RUEHOC #2356 1421529
ZNR UUUUU ZZH
R 211528Z MAY 92
FM AMEMBASSY OUAGADOUGOU
TO AMEMBASSY DAKAR 7517
BT
UNCLAS OUAGADOUGOU 02356

LOC: 057 427
21 MAY 92 1531
CN: 52425
CHRG: RIG
DIST: RIG

AIDAC

FOR RIG/DAKAR FOR PAUL ARMSTRONG

I.C. 12356: N/A
SUBJECT: DRAFT AUDIT REPORT NO. 7-686-92-XX DATED
5/14/92 ENTITLED AUDIT OF AID MANAGEMENT OF PROJECT
COMMODITIES IN BURKINA FASO

1. CAR/BURKINA CONCURS WITH THE FINDINGS AND RECOMMENDATIONS OF SUBJECT AUDIT REPORT AS WRITTEN.
2. CAR/BURKINA WILL POUCH MISSION ORDER NO. 92-02 DATED APRIL 14, 1992 ENTITLED QUOTE ACQUISITION OF PROJECT NXP (NON-EXPENDABLE PROPERTY) AND O.E. (OPERATING EXPENSE) NXP FINANCED DIRECTLY BY CAR/BURKINA AND INVENTORY CONTROL PROCEDURES OVER SUCH NXP UNQUOTE TO RIG/DAKAR FOR REVIEW. CAR/BURKINA BELIEVES THIS MISSION ORDER IS ADEQUATE TO CLOSE RECOMMENDATIONS 1.1, 1.2, AND 2.1.
3. THE FSN-PSC MANAGEMENT OFFICER IS CURRENTLY IN NIAMEY RECEIVING ON-THE-JOB TRAINING. THE FSN-PSC PROJECT NXP ASSISTANT IS CURRENTLY UPDATING THE PROJECT NXP INVENTORY TO CONFORM WITH THE REQUIREMENTS OF THE MISSION ORDER. TRAINING OF THE MANAGEMENT OFFICE FSN STAFF SHOULD BE COMPLETED BY 9/30/92 AT WHICH TIME THE REMAINING RECOMMENDATIONS NO.'S 2.2 AND 2.3 CAN BE CLOSED. BRYNN

BT
#2356

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EXHIBIT A

Audit Universe of Authorized Procurements
A.I.D. Directly-Procured Project Commodities
From January 1, 1989, to December 31, 1991

* <u>PIO/C NUMBER</u>	<u>NO. OF AWARDS</u>	<u>AMOUNT COMMITTED</u>
1. 686-0270-90014	4	\$45,000
2. 686-0270-90023	1	69,374
3. 686-0270-90025	6	28,589
4. 686-0270-90026	1	90,298
5. 686-0270-90027	3	8,528
6. 686-0270-90028	2	18,547
7. 686-0270-90029	14	77,755
8. 686-0275-5-0017	2	6,691
9. 686-0270-90038	1	25,062
10. 686-0270-90039	1	8,985
11. 686-0270-90040	2	2,516
12. 686-0275-10002	6	131,237
TOTALS	43	<u>\$512,582</u>

* Source - OAR/Burkina Faso PIO/C files

List of Award Actions Audited**A.I.D. Directly-Procured Project Commodities****As of March 12, 1992**

<u>Award Document</u>		<u>No. of Line Items</u>	<u>Amount Committed</u>
1. 5636-PA-12676		10	11,700
2. 084-0473 050		8	69,374
3. 686-270-0-00-106		1	8,056
4. 686-270-0-00-107		1	8,777
5. 686-270-0-00-108		1	11,688
6. 686-270-0-00-201		1	171
7. 686-270-0-00-202		2	2,624
8. 686-270-0-00-203		1	142
9. 686-270-C-00-139		2	92,000
10. 0270-0-00-1007		6	2,898
11. 686-270-0-00-0185		1	16,418
12. 686-270-C-00-227		2	35,000
13. 686-0270-0-00-0243-00		1	808
14. 686-0270-0-00-0211-00		11	13,900
15. 686-0270-0-00-0213-00		4	2,233
16. 686-270-C-0-10016		1	25,062
17. 686-270-0-00-1080		11	8,985
*18. 686-0275-5-10002, I.D. #3981/1	(Contraceptive order)	1	3,000
*19. 686-0275-5-10002, I.D. #3982/1	(Contraceptive order)	1	44,210
*20. 686-0275-5-10002, I.D. #3996/1	(Contraceptive order)	1	46,606
*21. 686-0275-5-10002, I.D. #3982/2	(Contraceptive order)	1	20,932
*22. 686-0275-5-10002, I.D. #3983/1	(Contraceptive order)	1	14,839
*23. 686-0275-5-10002, I.D. #4069/1	(Contraceptive order)	1	1,650
TOTAL		70	\$441,073 or % 86% of Universe of \$512,582

* These awards were made in AID/Washington. These six items were tested under Audit Objective 2 for arrival and storage.

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