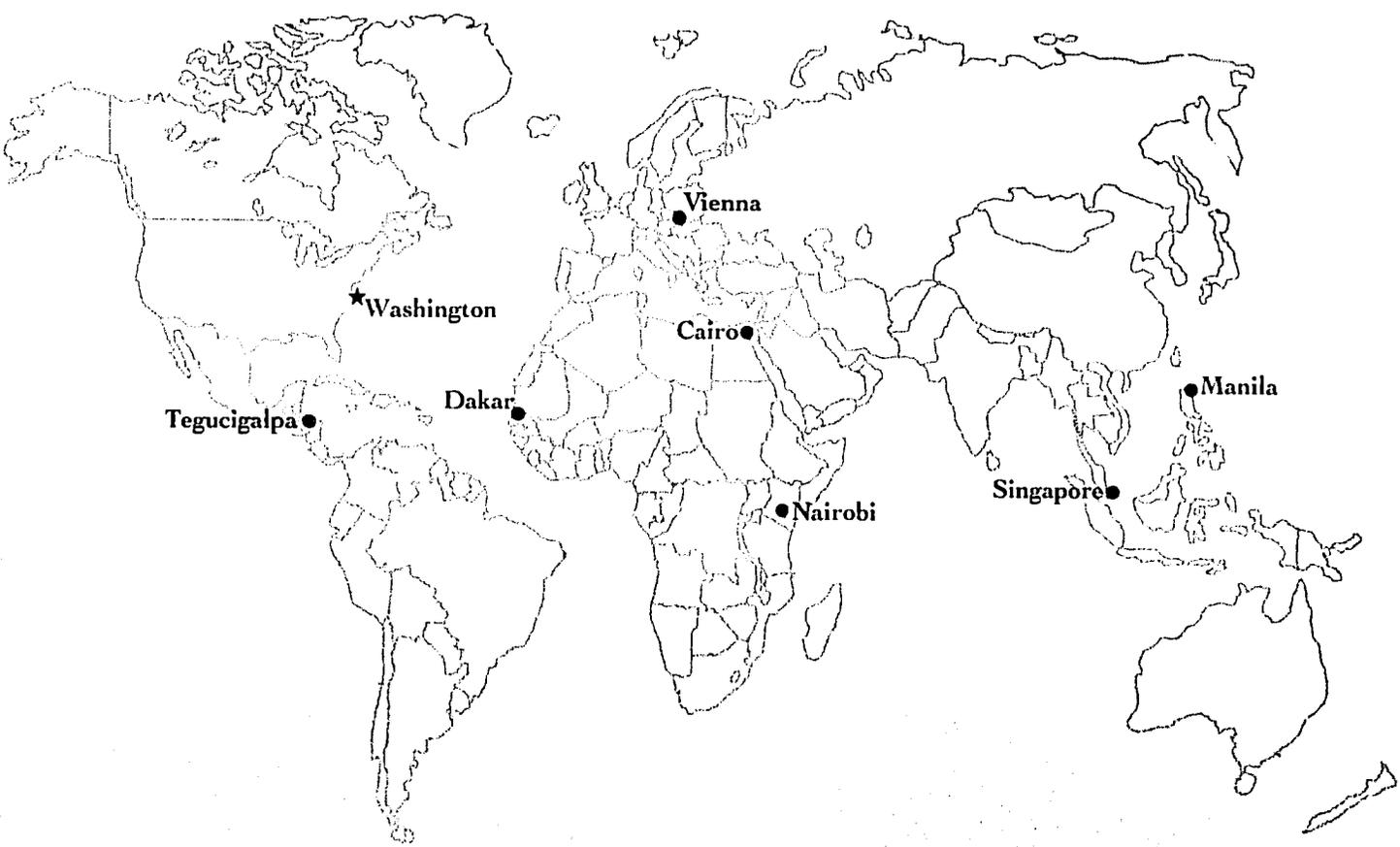


Regional Inspector General for Audit
Nairobi, Kenya

Audit of
USAID/Botswana's Controls Over
the Botswana Government's Counterpart
Contributions

Report No. 3-633-94-002
January 14, 1994





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

January 14, 1994

MEMORANDUM

TO: USAID/Botswana Director, Howard R. Handler

FROM: RIG/A/Nairobi, Everette B. Orr *Everette B. Orr*

SUBJECT: Audit of USAID/Botswana's Controls Over the Botswana Government's Counterpart Contributions

*Regional
Inspector General
for Audit/Nairobi*

Enclosed are five copies of our report on the subject audit, Audit Report No. 3-633-94-002.

We reviewed your comments on the draft report and included them as an appendix to this report. Recommendation Nos. 1, 2, and 3 are considered resolved and will be closed when appropriate actions are completed. Please respond to this report within 30 days indicating any actions planned or taken to implement the recommendations contained in this report.

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

EXECUTIVE SUMMARY

Background

To ensure that foreign governments have a vested interest in the success of USAID-financed activities, the Foreign Assistance Act of 1961 generally requires foreign governments to finance at least 25 percent of the total cost of each USAID-financed activity. Audits performed between 1982 and 1987, however, disclosed significant problems with USAID's willingness or ability to ensure foreign governments provide their 25 percent contribution. To correct these problems, USAID has instituted additional procedures since 1987, the most recent being established in 1991.

To comply with these procedures, USAID/Botswana was responsible for ensuring that the Government of Botswana (GOB) provided agreed-upon contributions under five projects. As of April 2, 1993, USAID had authorized \$61.5 million for these five projects, and the GOB had agreed to provide \$55.7 million (see page 2).

Audit Objectives

We audited USAID/Botswana's controls over host government contributions in accordance with generally accepted government auditing standards (see page 3 and Appendix I). This audit was conducted as part of a worldwide audit of host country counterpart contributions, led by the Office of the Regional Inspector General for Audit/Singapore, to determine whether USAID/Botswana followed USAID's 1991 procedures for monitoring host government contributions. Our fieldwork was conducted from June 16 through August 24, 1993 to answer the following audit objectives:

1. Did USAID/Botswana follow USAID's 1991 cable guidance to ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission ? (see page 7)
2. Did USAID/Botswana follow USAID's 1991 cable guidance to include in agreements or Project Implementation Letters a requirement for the host government to report at least annually on its contribution ? (see page 11)
3. Did USAID/Botswana follow USAID's 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews and (2) test the reliability of the reports by Mission site visit reviews and evaluations ? (see page 14)

4. Did USAID/Botswana follow USAID's 1991 cable guidance to adhere to USAID Handbook 3, Chapter 2, Appendix 2G, and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions ? (see page 22)

Summary of Audit

The audit found that USAID/Botswana had not yet established formal, written procedures for obtaining information on counterpart contributions and, consequently, was not receiving this data on a regular basis or adequately monitoring the GOB's progress towards meeting its required contribution levels (see page 8). The Mission generally followed USAID's 1991 procedures in requiring the GOB to report at least annually on its contributions. Of the five projects tested, four were found to have an appropriate reporting provision included in either the agreement or a Project Implementation Letter (PIL) while contributions under the fifth project were reported as part of the project close-out process since the project was nearing completion (see page 11). The Mission, however, did not review the adequacy of reported contributions during its project implementation reviews (PIRs) to assess whether amounts contributed, based on their reported value, were adequate to enable the GOB to meet its agreed-upon contribution commitment (see page 14). In addition, the Mission did not sufficiently test the reliability of reports on contributions to date totaling \$13.3 million (see page 17). Finally, the Mission may have used improper exchange rates in calculating the value of actual contributions (see page 22).

Audit Findings

Mission Procedures Need to be Formally Established and Implemented

USAID/Botswana is still in the process of establishing a formal system for obtaining and recording information on host country contributions. Although the Mission had prepared a Mission Order outlining procedures for controlling host country contributions, this document was still in draft form at the time of our fieldwork and was not drafted until June 1993 - over two years after the effective date of the Agency's 1991 procedures. As a result of this delay, the Mission had not been obtaining reports on the GOB's contributions on a regular basis which prevented the Mission from adequately monitoring the GOB's progress towards meeting its agreed-upon contribution commitments (page 8).

Annual Reporting Provisions Included in Project Documents

USAID/Botswana generally included in project agreements and Project Implementation Letters a requirement for the GOB to report at least annually on its contribution. For four of the five projects tested, the Mission established formal requirements for the host

government to report annually on its contribution to the project as required under the Agency's 1991 cable guidance. A reporting provision was not deemed necessary for the fifth project since the project was nearing completion and a final report on the host country's total contributions to the project had already been prepared (page 11).

Mission Needs to Ensure Reports on Contributions are Reviewed and Tested

USAID/Botswana did not properly review and document the adequacy of the Botswana Government's contributions and did not test reported contributions during site visits to determine whether this information was reliable. The Mission's project implementation reviews (PIRs) for the five projects tested either did not include a review to assess the adequacy of the contributions reported to the Mission, as required, or these reviews were so limited that little was documented in the PIR reports (page 14). In addition, Mission Project Officers, upon receiving reports on the host government's contributions, did not review these reports to ascertain whether the reported data appeared to be reasonable. Also, the Mission did not test the reliability of the data contained in the reports during site visits. As a result, the Mission did not detect \$285,848 in reporting deficiencies associated with reported contributions totaling \$2 million (page 17).

Agency Policy on Valuing Host Government Contributions is Unclear

USAID/Botswana did not define, in its agreements, the basis for valuing the GOB's contributions and may have used incorrect exchange rates in valuing the local currency contributions reported under three projects. This occurred, in part, because the USAID policy specifying the proper exchange rate to be used in valuing contributions is unclear and could, depending on the intent of the policy, be interpreted in several different ways. As a result, the Mission's valuation of the GOB's contributions may not have been proper, causing contributions to possibly be understated and preventing the Mission from accurately measuring the GOB's progress towards achieving specified levels (page 22).

Summary of Recommendations

The audit report contains three recommendations to the Director, USAID/Botswana to:

- finalize its draft Mission Order on host country contributions and provide documentary evidence that the Mission has implemented the procedures contained in this document (page 8);
- review and document the adequacy of host government contributions during project implementation reviews (page 15); and
- establish procedures for Project Officers to assess the reliability of reports on host government contributions (page 17).

Management Comments and Our Evaluation

The Mission reviewed the draft report and their comments, which we considered in preparing the final report, are included as Appendix II.

Office of the Inspector General

Office of the Inspector General
January 14, 1994

Table of Contents

	<u>Page</u>
Executive Summary	i
Introduction	1
Background	1
Audit Objectives	3
Report of Audit Findings	7
Did USAID/Botswana follow USAID's 1991 cable guidance to ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission ?	7
Mission Procedures Need to be Formally Established and Implemented	8
Did USAID/Botswana follow USAID's 1991 cable guidance to include in agreements or Project Implementation Letters a requirement for the host government to report at least annually on its contribution ?	11
Did USAID/Botswana follow USAID's 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews and (2) test the reliability of the reports by Mission site visit reviews and evaluations ?	14
Reviews to Assess Adequacy of Contributions Need to be Performed	14
Mission Needs to Ensure Reports on Contributions are Reliable	17
Did USAID/Botswana follow USAID's 1991 cable guidance to adhere to USAID Handbook 3, Chapter 2, Appendix 2G, and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions ?	22
Agency Policy on Valuing Host Government Contributions is Unclear	22

	<u>Page</u>
Management Comments and Our Evaluation	25
 <u>Appendices</u>	
Appendix I - Scope and Methodology	27
Appendix II - Management Response	31
Appendix III- Listing of Projects Audited	33
Appendix IV - Report Distribution	35

INTRODUCTION

Background

Similar to the principles of cost sharing and matching contributions in Federal domestic aid programs, contributions by foreign governments are usually required to ensure that these governments have a vested interest in the success of USAID-financed activities. To ensure this vested interest, the Foreign Assistance Act of 1961, as amended, generally requires foreign governments to finance at least 25 percent of the total cost of USAID-financed projects and programs.

Previous audits conducted by the Office of the Inspector General and the General Accounting Office have identified recurrent problems associated with host government contributions. Project designs typically contain overly optimistic project assessments of the host government's ability to provide the necessary financial support to projects. Further, USAID missions have often overlooked the importance of ensuring that host government contributions are properly accounted for.

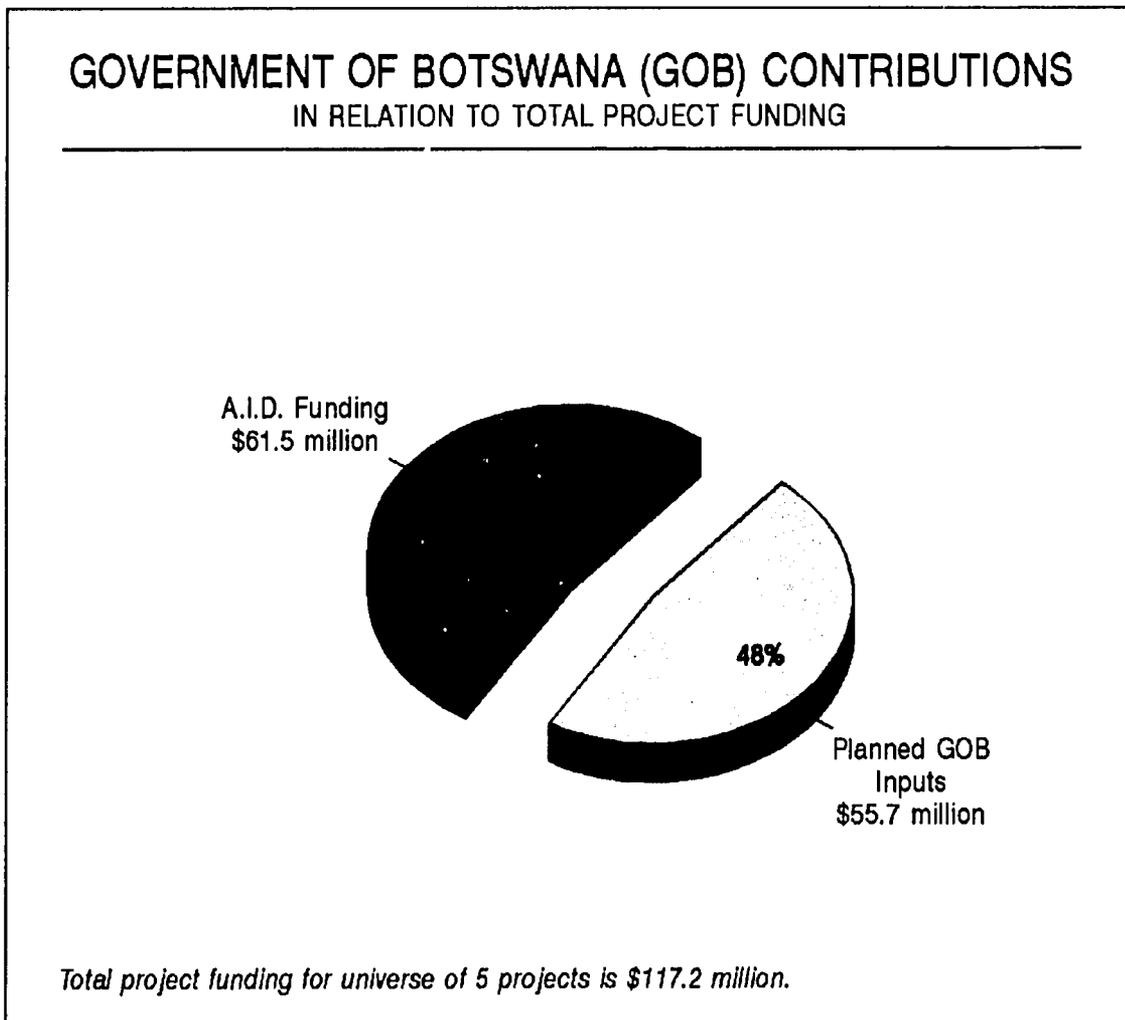
In a 1987 memorandum to the Assistant Administrator of the Office of Program and Policy Coordination, the Inspector General noted that these problems existed worldwide in USAID's programs and that the Agency needed to issue additional guidance in several areas. Since 1987, USAID has responded to these problems with additional policies and procedures to, among other things, (1) require the preparation of proforma host country contribution budgets early in the project design process, and (2) provide specific details about the application, definition, and calculations of host country contributions.

In 1991, USAID established additional procedures (State cable No. 138349, dated April 27, 1991) requiring missions to:

- ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the Mission's files;
- include in agreements or Project Implementation Letters, a requirement for the host government to report at least annually on its contribution;
- review the adequacy of host government contributions during project implementation reviews and test the reliability of the reports during Mission site visit reviews and evaluations; and

- adhere to USAID Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 in computing the value of in-kind contributions.

As part of a series of worldwide audits on this subject, the Office of the Regional Inspector General for Audit/Nairobi conducted an audit to determine whether USAID/Botswana has followed these 1991 procedures. As of April 2, 1993, the Mission's portfolio included five active, bilateral projects which required counterpart contributions from the Government of Botswana (GOB). Our audit covered all five projects. USAID authorized \$61.5 million under these projects, and the GOB agreed to provide \$55.7 million, or 48 percent of the total project costs of \$117.2 million. As of April 2, 1993, USAID obligations and expenditures for the five projects were \$35.5 million and \$21.3 million, respectively. GOB counterpart contributions reported under these projects as of this month totaled \$13.3 million (see Appendix III); however, this amount has not been verified.



Audit Objectives

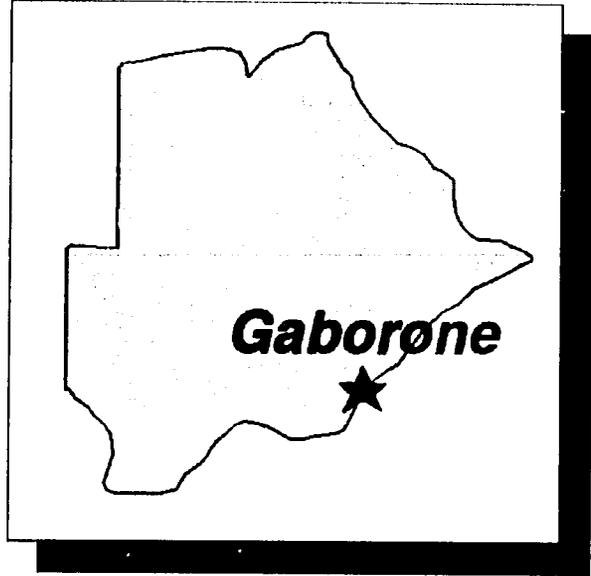
The Office of the Regional Inspector General for Audit/Nairobi audited USAID/Botswana's controls over the Botswana Government's contributions to answer the following audit objectives:

1. Did USAID/Botswana follow USAID's 1991 cable guidance to ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission ?
2. Did USAID/Botswana follow USAID's 1991 cable guidance to include in agreements or Project Implementation Letters a requirement for the host government to report at least annually on its contribution ?
3. Did USAID/Botswana follow USAID's 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews and (2) test the reliability of the reports by Mission site visit reports and evaluations ?
4. Did USAID/Botswana follow USAID's 1991 cable guidance to adhere to USAID Handbook 3, Chapter 2, Appendix 2G, and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions ?

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

This Page has been left blank

Botswana



This page has been left blank.

REPORT OF AUDIT FINDINGS

Did USAID/Botswana follow USAID's 1991 cable guidance to ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission ?

USAID/Botswana is in the process of designing a system to obtain information on host government contributions and to record such information in the official records and files of the Mission. While USAID/Botswana has initiated a number of activities to improve the monitoring of the Government of Botswana's (GOB) contributions, the Mission has not yet completed the design and implementation of its new system. As a result of this delay, the Mission has not been obtaining reports on actual contributions on a regular basis, thereby preventing the Mission from adequately monitoring the host government's progress towards meeting its required contribution levels.

In an effort to strengthen its accountability over host government contributions, USAID/Botswana prepared a draft Mission Order in June 1993 which included procedures that assigned various responsibilities to Mission personnel for carrying out specific tasks to obtain and review information on the GOB's contributions. Although these procedures were contained in a Mission Order that was still in draft form as of the period of our field work, the procedures went into effect immediately upon the issuance of this draft document. Among other things, these Mission procedures require that:

- Counterpart contributions, as presented in the project paper, will be no less than 25 percent of the total project costs in accordance with Handbook 3, Ch. 2, Appendix 2G and that the planned contribution required from the host government be calculated in accordance with Handbook 1, Part VII, Section 2.41;
- Project agreements (i) clearly describe the contributions to be made under the project and the manner in which they will be monitored, (ii) include a requirement for the GOB to report at least annually on its contribution for the year and (iii) require that the financial and compliance audits performed on implementing agencies include coverage over counterpart contributions;
- Project Officers ensure that (i) systems are established to obtain information on the GOB's contributions and that such data is recorded in the official Mission files and (ii) contribution reports are submitted in a timely and acceptable manner; and

- Information on the status of contributions be included in the project implementation review (PIR) documents and discussed during the formal review meeting.

Based on our review of these newly designed procedures, we concluded that while the above procedures address most of the requirements under the Agency's 1991 guidance, the procedures also need to require that:

- The results of the Mission's review of the adequacy of the counterpart contributions be documented in the PIR report in sufficient detail so as to indicate the level of contributions provided to the project, conclusions made based on the review, and any problems that should be brought to management's attention;
- Project Officers review the data contained in the contribution reports to ascertain whether the reported data appears reasonable and test the data during Mission site visit reviews in order to assess the reliability of the reported contributions; and
- Project Officers adhere to Handbook 1, Part VII, Section 2.41 in using the proper exchange rate in calculating the value of actual reported in-kind contributions.

Further, the Mission's system had not yet been finalized since the Mission Order outlining the Mission's newly designed procedures was still in draft form at the time of our audit. As a result, many of these procedures have not yet been fully implemented.

Mission Procedures Need to be Formally Established and Implemented

Although the Agency's guidance required Missions, beginning in April 1991, to develop a system for obtaining and recording information on host government contributions, USAID/Botswana has only recently begun to design such a system. While the Mission instituted formal procedures in this area in June 1993, these procedures had not yet been finalized since they were contained in a Mission Order which was still in draft form at the time of our audit. Mission officials indicated that, until recently, the Mission had not focused attention on developing a formal system because the Mission had been faced with more pressing priorities and experienced a large turnover of staff which limited the Mission's ability to establish and implement formal procedures, such as those prescribed by the Agency in its 1991 cable. As a result, the Mission has not been obtaining data on the GOB's contributions on a regular basis, preventing the Mission from adequately monitoring the GOB's progress towards meeting its required contribution levels.

Recommendation No. 1: We recommend that USAID/Botswana:

- 1.1 Finalize its drafted Mission Order on host country contributions; and**
- 1.2 Provide documentary evidence indicating that it is implementing the procedures contained in its Mission Order for obtaining and reviewing information on the host government's counterpart contributions.**

Under the Agency's 1991 cable guidance, missions were reminded of their responsibility for monitoring counterpart contributions to USAID-financed programs and projects. The main focus of this guidance was to require missions to:

". . . ensure that systems are in place to obtain information on host government (HG) contributions and that such information is recorded in the official records/files of the Mission."

USAID/Botswana, however, did not prepare written procedures to establish such a system until June 1993—over two years after the April 1991 guidance was issued—and, as of August 1993, these procedures had not yet been finalized. In June 1993, the Mission prepared a draft Mission Order outlining its written procedures for monitoring contributions provided by the GOB and other implementing agencies. While these procedures went into effect immediately upon the issuance of the Mission Order, the procedures have not yet been finalized since this document is still in draft form.

The delay in instituting a formal system for obtaining information on the GOB's contributions was due, in part, to the large turnover of staff that the Mission experienced over the past two and a half years. According to Mission officials, there had been three Mission Directors, three Assistant Directors / Supervisory Program Officers, and three Controllers at the Mission since late 1990. Further, delays in filling several personal service contractor positions on schedule caused the Mission to be short-staffed on several projects. Mission officials stated that these factors limited the Mission's ability to establish and implement all of the formal procedures prescribed by USAID/W, including those contained in the Agency's 1991 cable guidance.

In addition to the chronic turnover of staff, the Mission Director stated that the Mission was under a great deal of pressure and faced with other more pressing priorities at the time the 1991 guidance was issued as it was in the process of getting several projects underway while addressing design problems on several others. He also pointed out that the time frame of the cable guidance coincided with the arrival at post of both the Mission Director and the Assistant Director who, upon their arrival in early 1991, were forced to take immediate action on these projects to avoid further delays in their implementation. In focusing their efforts on addressing these implementation matters, the Mission was unable to give priority to establishing a formal system for obtaining information on the GOB's contributions. Further, the Mission did not see an urgent need to institute such formal reporting procedures since the Mission did not consider the provision of counterpart contributions, by the GOB and other implementing agencies, to be a problem area. Mission officials stated that they knew, based on their monitoring of each project, that the GOB was providing its share of resources and that information or documentation relating to these contributions could be obtained and made available to the Mission upon request. Based on this assurance, the Mission's oversight focused primarily on the implementation of activities (i.e. ensuring that activities were taking place as planned) rather than on instituting formal procedures for the reporting of contributions.

As a result of the delay in developing a formal system, USAID/Botswana has not received data on actual contributions on a regular basis, thereby preventing the Mission

from adequately monitoring the GOB's progress towards meeting its required contribution levels. Without regular monitoring, the Mission will be unable to provide the level of assurance required by USAID that these contributions are actually being made. Further, the Mission will continue to experience situations like the one described below where the Mission, upon the completion of two projects, had no knowledge whether the GOB had met its agreed-upon contribution requirements. While the following examples pre-date the Agency's 1991 guidance, they illustrate the need to track contributions in the future.

A review of two recently expired educational projects in the Mission's portfolio, the Botswana Primary and Secondary Education Projects (633-0240 and 633-0229), disclosed that little data was available to show exactly how much was contributed by the GOB under these two projects. Together, these projects required the GOB to provide a total of \$8,907,000 in counterpart contributions. Contribution reports providing a complete account of actual contributions made under these projects were not available. The final activity report for one of the projects reported that counterpart contributions amounting to \$563,500 had been provided for the purchase of vehicles and in-service training workshops. However, the report indicated that data on actual GOB resources provided under the other components of the project were not available. Likewise, the activity report for the second project did not include any discussion on the area of counterpart contributions. As a result, the Mission did not know the total amount contributed under either of these projects and did not have assurance that the GOB met its counterpart commitments for these projects.

USAID/Botswana officials acknowledged that there was a need to establish formal procedures for controlling counterpart contributions and agreed to issue a finalized Mission Order on the subject, incorporating the additional procedures recommended in this report, in order to formalize its newly designed procedures. In concurring with our audit recommendation, the Mission also agreed to provide appropriate supporting documentation as evidence that these new procedures are being implemented.

Did USAID/Botswana follow USAID's 1991 cable guidance to include in agreements or Project Implementation Letters a requirement for the host government to report at least annually on its contribution ?

USAID/Botswana followed USAID's 1991 cable guidance to include in agreements and Project Implementation Letters (PILs) a requirement for the host government to report at least annually on its contribution. For four of the five projects tested, the Mission established formal requirements for the Government of Botswana (GOB), as well as all other implementing agencies, to report at least annually on their contribution to the project. In the case of the fifth project, an annual reporting requirement was not deemed necessary since the project was nearing completion and a final report on the GOB's contribution had already been provided as part of the close-out process for this project.

One of the standards contained in the Agency's 1991 cable guidance was intended to strengthen host country accountability over its financial commitments by ensuring that the host country reported the status of its contributions for every USAID-financed activity requiring counterpart contributions. According to the Agency's 1991 cable:

"Missions should include in agreements or PILs a requirement for host governments to report annually (more frequently if appropriate) on their contribution (cash and in-kind) to the AID-financed program/project activity. (USAIDs may design their own report format.) Where such requirements do not exist, an ideal time for adding this language would be when the project is amended to provide incremental funding, or when issuing the annual budget PIL if such procedures are utilized."

In accordance with this USAID requirement, USAID/Botswana designed new procedures, contained in a draft Mission Order prepared in June 1993, which required the GOB and other implementing agencies to provide an annual report calculating the total value of their counterpart contributions for the year as well as the cumulative total under the project. Although these new Mission procedures had not yet been finalized, our review found that such reporting requirements had already been established for most of the projects examined.

For four of the five projects tested, the Mission had established a requirement for the GOB to report at least annually on its contributions. Of these four projects, three were signed after the issuance of the April 1991 cable guidance and were all found to have a reporting requirement included in either the project agreement or a PIL. In the case of the fourth project, the Private Provision of Social Services (PPSS) Project, a reporting requirement was initially established through a formal letter sent to the Gaborone City Council (GCC), in November 1992, in which the Mission required the GCC to provide contribution reports on a semi-annual basis to coincide with the project implementation review cycle. The GCC has since complied with the Mission's request and in its initial report, dated April 1993, provided a report on contributions made from the inception of the project through February 1993. The Mission subsequently had a reporting provision included in a PIL to this project.

Among the four projects found to have an annual reporting requirement, the Mission had obtained contribution reports for two as of the period of our fieldwork. Contribution reports had not yet been received for the two remaining projects because these projects were just starting up and had experienced relatively little activity since the project agreements were signed. In the case of one of these projects, a report was not yet due since the project was not even a year old at the time of our audit.

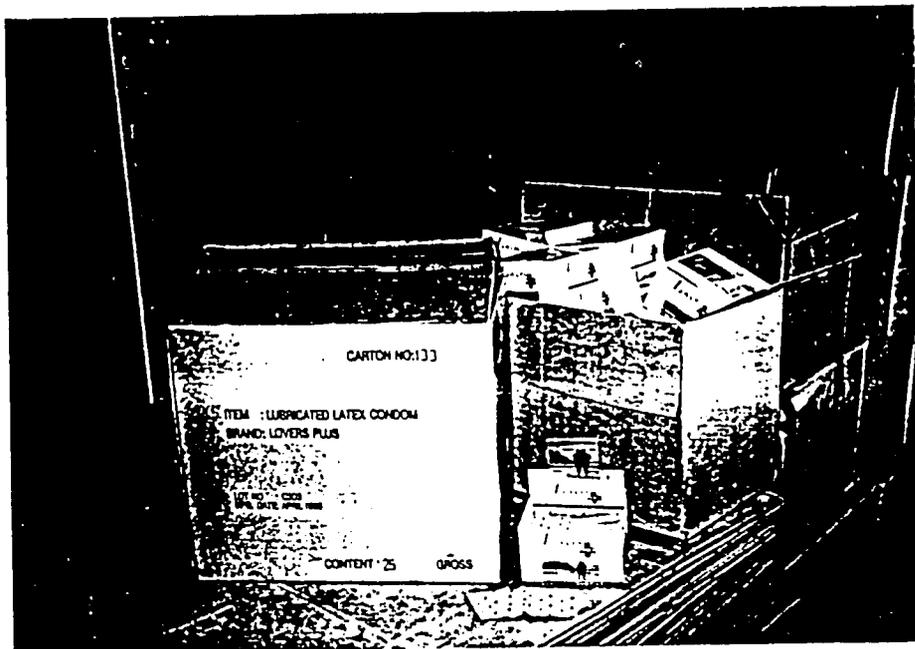
The Mission, however, did not require the GOB to provide annual reports on its contributions under one of the five projects tested—the Botswana Workforce Skills Training II (BWAST II) Project. Establishing an annual reporting requirement for this project in 1991, following the issuance of the cable guidance, was not deemed appropriate by the Mission since the project was nearing completion with most of the planned activities having already taken place. Instead, the Mission in early 1992 took steps to reconstruct the data on the contributions made to date under the project. In a February 1992 meeting with officials from the GOB's Ministry of Education and the prime contractor, the Mission arranged for the contractor to prepare a final report on the GOB's contributions through December 1992 based on estimates^{1/}. At the time of this meeting, the contractor was in the final year of its contract and the project, according to the Project Development Officer, was winding down with a substantial portion of the project activities having already been completed. The Mission determined that instituting an annual reporting requirement at such a late stage in the project's life would not provide useful information for tracking purposes since (i) the level of project activities had dropped significantly by that time and (ii) reports covering the remaining life of the project would not account for contributions made during the prior years when most of the GOB resources were provided. Further, the Mission claimed that such reporting would have required the GOB to establish a reporting system within their offices which would have taken time and staff resources and did not seem appropriate given the short period and low level of activities that remained under the project.

Although the project's completion date has since been extended to December 31, 1994, the level of activity remaining on the project is minimal and is currently limited to one long-term participant training activity in the U.S. which, according to the Project Development Officer, had only nine participants still undergoing training as of the period of our fieldwork in August 1993. Further evidence that this project is nearing completion is reflected in the fact that the contractor's final activity report is in the process of being finalized, and all of the advisory staff, including the Chief of Party, have returned to the U.S. Based on our discussions with project and contractor staff as well as our review of project activity reports, we determined that the Mission's reasons for not instituting an annual reporting requirement for this project were justified. Because of the low level of activity remaining on this project as well as the Mission's action to have a final report prepared on the GOB's contributions, we are not issuing a recommendation under this objective.

^{1/} This information was later submitted to the Mission, in December 1992, as an addendum to the contractor's final activity report.



As part of the Private Provision of Social Services Project, the Botswana Government financed the construction of this landfill in Gaborone.



Counterpart contributions, such as these condoms, were provided by the Botswana Government in support of USAID-financed projects.

Did USAID/Botswana follow USAID's 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews and (2) test the reliability of the reports by Mission site visit reviews and evaluations ?

USAID/Botswana generally did not follow USAID's 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews (PIRs) or (2) test the reliability of the reported contributions during Mission site visit reviews and evaluations.²⁷

In response to the Agency's 1991 guidance, USAID/Botswana developed procedures, contained in a draft Mission Order prepared in June 1993, requiring project staff to review the status of the Government of Botswana's (GOB) contribution to the project during the formal PIR review meetings and to include this information in the PIR report. These procedures also require the Mission Controller to ensure that reported contribution data receives appropriate audit coverage during the project's financial and compliance audits in order to assess whether the information reported is reliable. In addition, Mission Project Officers stated that they occasionally verified, through visual observation, the provision of some in-kind or non-cash contributions during their site visits.

As discussed below, however, USAID/Botswana did not (1) adequately review the adequacy of the GOB's contributions during the semi-annual project reviews or (2) sufficiently ensure that this reported data was reliable.

Reviews to Assess Adequacy of Contributions Need to be Performed

USAID/Botswana's project implementation reviews for the five projects tested generally did not include a review to assess whether the amount of actual contributions provided was adequate, as required by the Agency's 1991 guidance. The Mission, until recently, had not given much attention to the value associated with actual contributions provided and, instead, focused on assessing the progress of specific activities and whether planned resources had, in fact, been provided by the GOB. The Mission believed that this level of monitoring was sufficient since counterpart contributions represented an integral component of each project and failure by the GOB to provide its planned contributions would result in the non-implementation of project activities which the Mission claimed would be detected during its monitoring process. As a result of not providing the level of monitoring required by the Agency, Mission management did not know the status of the GOB's contributions in relation to agreed-upon levels and was left to assume that the resources provided to date were adequate without knowing for sure if this was true.

²⁷ Since April 1991, when the Agency's cable guidance went into effect, there had been no evaluations performed on the three sampled projects that reported contributions. Further, there were no site visit reports available for any of these projects.

Recommendation No. 2: We recommend that USAID/Botswana incorporate into its Mission Order on host country contributions more detailed procedures for reviewing the adequacy of contributions during project implementation reviews by requiring that the results of these reviews, including conclusions, amounts contributed, and problems identified, be documented in the project implementation review report.

To ensure that Missions provide continual monitoring over the host country's provision of agreed-upon contributions, the Agency's procedures require Missions to review the adequacy of host country contributions during the semi-annual project implementation reviews. Specifically, the Agency requires:

"In meeting our management responsibilities A.I.D. should go a step further than assurances, or waiting until the project is completed to monitor HG [Host Government] contributions to the A.I.D.-financed program, project, or activity . . . The adequacy of the HG contribution should be reviewed during Project Implementation Reviews (PIRs) . . ."

Contrary to the above procedure, USAID/Botswana's project implementation reviews of the five projects in our audit universe did not sufficiently review and document the adequacy of the contributions provided by the GOB. Although several Project Officers initially stated that such reviews were being performed, we were later informed that these reviews focused on assessing the progress achieved in the implementation of specific activities and determining if project inputs, whether they be GOB or USAID-funded, had been provided as planned. The reviews, we determined, did not include an assessment on whether the amount of counterpart resources provided, based on the reported value, was adequate to enable the GOB to meet its agreed-upon level of contributions by the time the project is completed. Our audit revealed that none of the PIR reports examined contained sufficient evidence to indicate that such an assessment had been performed on any of the projects tested.

In June 1993, USAID/Botswana prepared a draft Mission Order which included procedures requiring that the status of the contribution be discussed during the PIR meeting and documented in the PIR report. Specifically, this Mission Order stated:

"The Project Development Officer who is responsible for organizing and supervising the implementation [of] the Mission's Semi-Annual Project Implementation Review (PIR) per Mission Order 320.10.C., will assure that information on the status of the contribution to the project has been included in the PIR document by the Project Officer and discussed during the formal review meeting."

In implementing this new procedure, the Mission revised the cover sheet of the PIR report to indicate the cumulative level of counterpart contributions made under the project. Of the five projects we tested and which were reviewed, by the Mission, during

the most recent PIR cycle,^{3/} four were found to include this data in the project's PIR report. However, none of these PIR reports contained sufficient evidence to indicate that the Mission performed a review to assess the adequacy of the resources provided by the GOB during the period covered by the PIR. While these reports included discussions on the status of activities taking place under each project, the Mission did not clearly identify in these reports which activities/inputs represented counterpart contributions or indicate whether it considered the level of contributions provided to be adequate.

This omission occurred, in part, because the Mission's new procedure, as outlined in its draft Mission Order, did not explain in detail the type of information to be included in the PIR report to document the Mission's review concerning the adequacy of the GOB's contribution. Although these new procedures required that information on the status of the counterpart contribution be discussed during the formal PIR meeting and included in the PIR report, it was not clear exactly what information was expected to be documented. For example, the procedures did not specify that reports include information on the amount of contributions reported during the implementation period, conclusions concerning the adequacy of this amount (i.e. results of review), and any related problem areas that should be brought to the attention of Mission management.

Further, Mission officials stated that, until recently, the value of actual contributions provided was not given a great deal of attention or specifically addressed during PIRs due, in part, to other workload priorities. In addition, several Project Officers explained that, during their PIRs, they assessed the progress of specific activities and whether planned resources had, in fact, been provided by the GOB which they thought was adequate in meeting the Agency's requirement. The Mission pointed out that counterpart contributions represented an important and integral component of each project to the extent that failure, by the GOB, to provide its contribution would be reflected in the progress of the project and the implementation/non-implementation of activities which would be detected during the Mission's monitoring process. Consequently, the Mission believed that while PIR reports may not reveal shortfalls in the value of the contributions, the reports would indicate a failure on the part of the GOB to provide the inputs required to implement the project.

Because the results of the Mission reviews on the status of contributions, including any existing problems, were not documented and disclosed in the PIR reports, the report users (e.g. senior Mission management) had no reason to question the adequacy of the GOB's level of contributions and were left to assume that the GOB was satisfactorily meeting its obligations and adequately accounting for its contributions to USAID-financed activities. This, however, was not always the case, as evidenced by the reporting deficiencies cited in the discussion for the following problem area. Unaware that problems exist, Mission management will not be able to take timely and appropriate action towards resolving these problems and preventing their recurrence in the future. Therefore, USAID/Botswana should amend its procedures to ensure that reviews to assess the adequacy of contributions are performed and properly documented.

^{3/} Covering the implementation period from October 1, 1992 through March 31, 1993.

Mission Needs to Ensure Reports on Contributions are Reliable

Contrary to USAID procedures, USAID/Botswana did not ensure that Project Officers reviewed the contribution reports submitted by the GOB and other implementing agencies to determine whether amounts contained in these reports were reasonable. Also, the Mission did not perform tests to verify the reliability of these reports during site visit reviews. This occurred because the Mission did not develop adequate procedures for reviewing and verifying contributions and did not focus much attention on this area due to other workload priorities. As a result, the Mission did not detect \$285,848 in reporting deficiencies associated with reported contributions totaling \$2 million.

Recommendation No. 3: We recommend that USAID/Botswana incorporate into its Mission Order on host country contributions procedures requiring that Project Officers (i) review contribution reports to ascertain the reasonableness of the amounts reported in relation to the project activity and (ii) perform tests during site visits to verify the existence of reported contributions, on a test basis, and document the results of these tests in their site visit reports.

To ensure that data provided in reports on host country contributions is reliable, the 1991 USAID procedures required Project Officers to review and ascertain the reasonableness of these reports as well as to test the reliability of the reports during site visits and evaluations. According to the 1991 cable guidance:

"The adequacy of the HG contribution should be reviewed during Project Implementation Reviews (PIRs) and the reliability of the reports tested by Mission site visit reviews and evaluations. If HG centralized systems are not maintained, as a minimum, the Project Officer/Manager should obtain the HG 'cost sharing' report and, after signing the report indicating the report's reasonableness in relation to project activity, staffing, progress, etc., file the report in the official Mission project/program files."

USAID/Botswana, however, did not ensure that Project Officers (i) reviewed reports on contributions to ascertain whether amounts contained in these documents were reasonable or (ii) verified the reliability of these reports during their site visits. These problems are discussed below.

Review of Contribution Reports - Project Officers did not review reports obtained from the Botswana Government and other implementing agencies to assess whether amounts appearing in these reports were reasonable. For the three projects identified to have reported contributions, we noted that none of the reports obtained had been signed by the Project Officer, indicating that the amounts reported were reviewed and determined to be reasonable in relation to the project activity, staffing, and progress of the project. Reported counterpart contributions for these three projects totaled approximately \$13.3 million.

Verification of Contribution Reports - USAID/Botswana also did not verify the reliability of reported contributions during site visits and evaluations. For the three projects with reported counterpart contributions, none had any reported contributions tested by the Project Officer to the appropriate supporting records during site visit reviews. One Project Officer claimed that he had been verifying, through visual observation, the existence of various GOB-financed inputs during his visits to the field. Nevertheless, these casual observations made during the course of the Project Officer's site visits were not part of a pre-planned review to test specific reported contributions. Moreover, the site visits and any observations that were made during these visits were not documented in the project files, so there were no records available for this project that we could examine to determine exactly what counterpart resources, if any, the Project Officer had verified the existence of. Likewise, these reported contributions had also not received any coverage during evaluations since none of the three projects had received an evaluation after the Agency's April 1991 procedures went into effect.

The reports on counterpart contributions were not adequately reviewed by Project Officers and tested during site visits because the Mission had not focused much attention on this area prior to our audit and did not institute formal procedures requiring contributions to receive the level of review and testing prescribed in the Agency's 1991 cable guidance. According to the Mission Director, the Mission had experienced a large turnover of critical staff since 1991, when the guidance went into effect, and was faced with a number of more pressing workload priorities which limited the Mission's ability to establish and implement formal procedures, such as those in the Agency's guidance.

Instituting formal procedures to have contributions tested was not given high priority, in part, because the Mission believed, based on its monitoring of activities, that the GOB was providing its share of contributions under USAID-financed projects. Several Project Officials stated that they had assurance that the GOB was providing its share of the agreed-upon resources/inputs based on the fact that project activities which relied on inputs from the host government or other implementing agencies were taking place and proceeding as planned. Since the Mission was monitoring the implementation of these activities through its close contact and involvement with the GOB and the institutional contractors, it felt comfortable with the level of oversight being provided.

Although the Mission drafted procedures in June 1993 for monitoring host country contributions, these procedures did not require the level of review prescribed in the 1991 cable guidance. For example, the Mission's proposed system did not include procedures requiring Project Officers to review contribution reports, upon receipt, to ascertain whether the amounts contained in these reports were reasonable in relation to the project activity and staffing levels. Likewise, the Mission's system did not include procedures requiring the reported data to be tested during site visits and evaluations in order to verify the reliability of the reported contributions.

By not providing the level of coverage required in reviewing and testing reported contributions, the Mission did not have adequate assurance that the reported data being received was reliable, preventing the Mission from accurately tracking and monitoring the GOB's progress towards achieving required contribution levels. In testing the

contributions reported under two of the projects in our audit universe, we found the data on these contributions was not always reliable or accurately recorded. For example, on one project, the Botswana Private Enterprise Development Project, the Mission's Summary Report on Host Government Contributions indicated that this project had reported cumulative contributions of \$1,121,000. However, Mission officials were unable to adequately explain how this figure was calculated and, when asked to recalculate this amount, computed a lesser amount after referring to the contribution records that were available at the Mission. Based on our review of the contribution reports submitted under this project, it was determined that the amount actually reported was the local currency equivalent of \$868,266, a difference of \$252,734. In addition, our tests to verify the reliability of this reported data disclosed the following additional reporting inaccuracies:

- One report included contributions for airfares and salaries, totaling \$160,039, that had not yet been made and were projected beyond the date of the report;
- A math error identified on a supporting schedule for another report resulted in an overstatement of one line item by \$13,382;
- The value of computer equipment and software donated to the project by the GOB was determined to be understated by \$19,538; and
- One implementing entity failed to report contributions totaling \$19,620 relating to the rental value for three residential houses provided to project advisory staff.

Of the \$683,218 in contributions we tested for this project, only \$542,016, or 79 percent, was determined to be reliable and based on adequate supporting records or estimates that were deemed to be based on reasonable assertions.

Our review of the contributions made under another project, the Private Provision of Social Services Project, revealed that while \$1,147,299 was reported to have been contributed as of February 1993, this figure was not entirely accurate since it was based on the level of counterpart funding *committed* for specific activities rather than actual disbursements under the project. Nevertheless, our review of the GOB's records disclosed that approximately \$1,152,194 in resources had been provided as of July 1993. Of this amount, we tested contributions valued at \$605,098, and found \$556,661, or 92 percent, to be adequately supported.

While the Mission's new procedures did not require Project Officers to test the reliability of reported contributions, the procedures did, however, prescribe an alternative measure by requiring that annual financial and compliance audits performed on project and program recipients include coverage over counterpart contributions. Several Mission officials stated that they preferred having the reported contributions tested through these audits. They expressed concern that such testing during site visits would impose a heavy burden on the Project Officers since they did not have the time and staff resources to conduct these tests, especially in those cases where the reporting was decentralized and required visits to numerous sites to examine supporting documents. During an interview, one official pointed out that the Project Officers might not do as thorough a job as an

auditor since they may not always know what types of supporting documents to look for. Further, a chief accountant at one of the implementing agencies expressed uneasiness over having non-auditors reviewing his records and stated that he would prefer to have auditors performing any testing to verify the provision of the entity's contributions.

In implementing this new procedure, the Mission required the audit firm selected to conduct the latest financial and compliance audit of the Botswana Private Enterprise Development (BPED) Project to include a review of the counterpart contributions made under the project. After examining the report for this audit, we verified that the audit did include coverage to determine the level of contributions provided by each of the project's implementing agencies. However, this coverage, while extensive in scope, was subject to certain limitations. While the audit concluded that the contributions reported under this project were reasonably stated, the report pointed out that the data reviewed included in-kind contributions that were based on estimated data for which the project documents did not specify a basis for computing. In the absence of specific criteria prescribing the basis to be used in estimating the value of various in-kind contributions, Project Officers will need to assist audit firms in ensuring that the basis used by recipients is appropriate and results in reasonably accurate estimates. This will help to avoid reporting inaccuracies such as those identified above^{4/}.



Unreported host government-owned housing furnished to project advisory staff

^{4/} The reporting deficiencies identified by our audit involved contributions that were provided subsequent to the period covered by the Mission's annual financial and compliance audit, except in the case of one report which had a \$13,382 math error.

Based on the results of our review, there is clearly a need for Mission management to assume a more active role in reviewing reported contributions and ensuring that this data is reliable. One means of achieving this is through the use of the annual financial and compliance audits to test the reliability of reported contributions by verifying amounts to the appropriate supporting records. While we consider this to be an acceptable means of determining whether reported amounts are adequately supported, this procedure, in itself, is not a substitute for Mission controls and does not discharge the Project Officers from their responsibility to monitor the provision of resources by the host country and to identify problems on a timely basis. Therefore, Project Officers should be responsible for verifying, on a test basis, the provision of specific resources during their site visits. Further, the results of these reviews, including any deficiencies identified, should be appropriately documented in the Project Officer's site visit report. Together, the coverage provided by both the Project Officer and the financial and compliance audits should improve the Mission's controls for detecting and preventing inaccurate reporting in the future.

Did USAID/Botswana follow USAID's 1991 cable guidance to adhere to USAID Handbook 3, Chapter 2, Appendix 2G, and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions ?

USAID/Botswana adhered to Handbook 3, Chapter 2, Appendix 2G in calculating budgeted contributions. However, the Mission did not follow Handbook 1, Part VII, Section 2.41 in defining the basis for valuing real resources ("in-kind" or non-cash contributions) at project inception. The Mission also did not use historical exchange rates in effect at the time the project was signed in calculating and accounting for the Government of Botswana's (GOB) actual contributions as required under Handbook 1; however, because the Agency's policy specifying the use of historical exchange rates, as provided in Handbook 1, Part VII, Section 2.41, conflicts with another existing Handbook 1 policy, we were unable to definitively conclude whether the GOB's contributions were improperly calculated and could not answer this part of the objective. To resolve this conflict, further clarification on this matter may be required from the Agency to ensure that the original intent behind the Handbook 1 policy is met.

USAID/Botswana adhered to Handbook 3, Chapter 2, Appendix 2G for the three project agreements that were signed after the issuance of the 1991 guidance by:

- Calculating the GOB's contributions based upon the total cost of the project and ensuring that its contribution was no less than 25 percent of this amount;
- Identifying the project operating and capital costs to be borne by the GOB; and
- Excluding contributions by other donors in calculating the GOB's contributions as a percentage of total project costs.

USAID/Botswana, however, did not define in its agreements the basis to be used in valuing the actual contributions and did not apply the exchange rate in effect at the time the project agreement was signed in computing the dollar value of these contributions.

Agency Policy on Valuing Host Government Contributions is Unclear

USAID/Botswana did not define the basis for valuing the GOB's contributions and did not use historical exchange rates when computing actual contributions. This occurred, in part, because USAID policies are not sufficiently clear. As a result, the Mission's valuation of actual contributions may not have been proper.

In an attempt to clarify USAID exchange rate policy, USAID, in 1987, issued new procedures (State cable number 1860822) which were subsequently incorporated into USAID Handbook 1, as Part VII. These procedures defined the Agency's new policy

governing the appropriate exchange rate through which USAID accounts for, among other things, host government contributions to projects. Basically, the policy indicates that the dollar value of the resources to be provided by the host government be calculated using the exchange rate existing when the project agreement was signed. This basis of calculation is to be defined in the project agreements and then used throughout the life of the project to ensure that the agreed-upon level of contributions is not affected by fluctuations in exchange rates. Specifically, Section 2.41 of this policy requires that:

“. . . at the signing of an assistance agreement, the host country's real resource contribution is to be expressed both in terms of absolute dollars and a percentage of the total project based on the domestic and foreign prices and the exchange rate existing at that date. This forms the basis for determining host country's absolute real resource contribution and percentage share of the total project throughout its life, and insulates the host country's contribution from the effect of any exchange rate fluctuations which may occur."

USAID's 1991 cable guidance reminded Missions of these requirements:

"Missions should follow guidelines in referenced Handbook [3] and Handbook 1, Part VII, 2.41 for computing [the] value of in-kind contributions and rate of exchange to be used in calculating the HG contributions."

In accordance with the above USAID policies and procedures, USAID/Botswana prepared a draft Mission Order which included procedures requiring the Project Review Committee to ensure that Project Papers comply with Handbooks 1 and 3 in defining the host government's "planned" contribution requirement. This draft Mission Order stated:

"The committees will particularly focus on assuring that: (a) the minimum contribution of 25 percent of total project costs had been met in accordance with Handbook 3, Chapter 2, Appendix 2G; and (b) that the Government's contribution has been properly calculated in accordance with Handbook 1, Part VII, 2.41."

USAID/Botswana, however, may not have adhered to the above Handbook 1 guidelines in valuing the GOB's "actual" counterpart contributions. Contrary to Section 2.41 of the Handbook, the Mission did not ensure that reported contributions, expressed in local currency, were converted using the exchange rate current on the date the project agreement was signed. A review of the contribution reports for the three projects with reported contributions disclosed that the amounts contributed were either not converted to U.S. dollars or converted using prevailing exchange rates. On one project, the reported contribution was not converted to dollars and was instead recorded in local currency. Reports received under two other projects, prepared by various implementing agencies, reported contribution amounts to the Mission that were stated in U.S. dollars after being converted using either several prevailing rates or an unspecified rate. In addition, the Mission also did not adequately define in the project agreements the basis for valuing the GOB's contributions. For example, none of the agreements examined specified the exchange rate to be used throughout the life of the project to convert the local currency value of reported contributions to the U.S. dollar equivalent.

Prescribed exchange rates may not have been properly applied in valuing the GOB's reported contributions because the Mission's newly designed system for controlling counterpart contributions did not include procedures requiring Project Officers to ensure that the local currency value of contributions provided during the life of the project be calculated in accordance with Handbook 1, Part VII, Section 2.41. Furthermore, the Agency's policy on exchange rates may not be sufficiently clear. While Section 2.41 of the Handbook requires contributions to be converted using the exchange rate existing when the project agreement was signed, Section 2.22 stipulates:

". . . it shall be A.I.D. policy that U.S. dollar exchanges for..the accounting of host country contributions to projects shall be made at the highest rate per U.S. dollar not unlawful that is available to anyone in a recipient country . . ."

One Mission official felt that it would be more appropriate to use the exchange rate current at the time the contribution was made to ensure that the host government contributed everything it agreed to provide under the project. The official expressed concern that a strict application of the USAID exchange rate policy might enable the GOB to contribute less resources (e.g. office space, labor, cash) to USAID projects than was originally agreed upon. As the local currency depreciates in value, as is often the case, the value of a unit of local currency is reduced in its purchasing power relative to the dollar. If some adjustment is not made to compensate for this decline in purchasing power, it could lead to a situation whereby the host government contributes the number of local currency units it originally agreed to, based on the historical exchange rate, but these units are not sufficient to buy all of the resources originally agreed upon.

Based on correspondence received from the Office of the Regional Inspector General for Audit/Singapore (RIG/A/Singapore), the lead office for this worldwide audit, we have learned that similar concerns questioning the proper interpretation of Handbook 1 have also been expressed by other USAID Missions receiving coverage under this worldwide audit. During these audits, discussions were held with Mission officials and regional legal advisors concerning the application of the exchange rate policy during which different opinions on the interpretation of Handbook 1 were given.

After reviewing the provisions contained in Handbook 1, Part VII, we concluded that, depending on the intent of the guidance, Section 2.41 could be interpreted in one of two ways: either the *exchange rate* stated in the project agreement should be used throughout the life of the project or, the *dollar value* of the real resource contribution should be obtained regardless of any fluctuations in the exchange rate. The latter interpretation coincides with Section 2.22 which requires the accounting for contributions to be made at the highest rate per U.S. dollar. Because the intent of the Agency guidance is not entirely clear, this matter has been referred to the IG Legal Counsel for consideration. This issue will be brought to the attention of USAID/Washington when RIG/A/Singapore issues its final capping report on the worldwide audits of host government contributions.

MANAGEMENT COMMENTS AND OUR EVALUATION

USAID/Botswana reviewed a draft of this report and generally concurred with its findings, conclusions, and recommendations. Regarding the auditors' conclusion that Project Implementation Review (PIR) reports did not contain evidence indicating that a review had been performed to assess the adequacy of the counterpart contributions provided, the Mission pointed out that these reports did include detailed discussions on the activities accomplished under each project even though the reports did not specifically identify which activities were funded with counterpart funds. We agree that the PIR reports we examined included detailed discussions on the status of project activities, including those funded with counterpart resources, and have revised the discussion appearing on page 16 of this report to reflect this. Nevertheless, to provide the level of monitoring required by Agency's 1991 policy guidance, the Mission needs to ensure that its PIR reports document not only the status of counterpart activities, but also the results of the Mission's assessment on whether the level of resources provided by the host government is considered adequate for the purpose of regularly monitoring the progress achieved by the host government towards meeting its contribution requirement. The complete text of the Mission's comments is included in Appendix II.

This page has been left blank.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Botswana's controls over the Government of Botswana's (GOB) counterpart contributions in accordance with generally accepted government auditing standards. The audit was conducted from June 16 through August 24, 1993. Field work was done at the office of USAID/Botswana and included visits to GOB ministries and other implementing agencies in Gaborone. During these visits, we held discussions with contractors and host government officials; however, we did not audit these entities since this was beyond the scope of this audit. Our audit was limited to assessing the Mission's implementation of the four control requirements specified in the Agency's 1991 procedures on host government contributions (State cable 138349).

USAID/Botswana had eight active projects as of April 2, 1993 including three regional projects and programs. Since the contribution requirements under Section 110 of the Foreign Assistance Act did not apply to regional projects, these three projects were excluded from the scope of our review. Therefore, our audit universe for reviewing host government contributions included five projects, with USAID's Life of Project funding for these projects totaling \$61.5 million. As of April 2, 1993, USAID obligations and expenditures for the five projects were \$35.5 million and \$21.3 million, respectively. The GOB's contributions to these projects totalled \$13.3 million as of this date out of a total of \$55.7 million required under the agreements.

As part of this audit, we examined USAID/Botswana's internal control assessment. We also reviewed a prior RIG/A/N audit of the Botswana Junior Secondary Education Improvement Project (Report No. 3-633-91-06, dated May 31, 1991) which included coverage of host country counterpart contributions. The audit evidence gathered during our field work included oral explanations as well as documentary evidence provided by USAID/Botswana officials, host government officials, and contractors. Our analyses and testing of the documentation provided is discussed in the methodology section.

In addition to the methodology described in the following section for each audit objective, USAID/Botswana's management provided written representations which we considered essential in answering our audit objectives and in assessing the Mission's internal controls and compliance.

Methodology

The methodology for each audit objective follows.

Audit Objective One

The first objective was to determine whether USAID/Botswana followed USAID's 1991 cable guidance to ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission. To accomplish this objective, we evaluated the Mission's existing systems and controls in the context of the policies and procedures set forth in USAID's 1991 cable guidance.

In evaluating the Mission's systems, we interviewed the USAID/Botswana Mission Director, the Assistant Director, the Controller, the Project Development Officer, and selected Project Officers to obtain their views on the Mission's compliance with the standards set forth in the 1991 guidance and their roles and responsibilities for establishing and maintaining the systems for obtaining and recording information on host country contributions. We obtained a copy of a draft Mission Order on host country contributions as well as any other existing documentation identifying the system in place to verify the validity of the testimonial evidence obtained from Mission personnel. Also, we incorporated the results of audit objectives two, three and four to determine whether the Mission had fully implemented the procedures established in the draft Mission Order.

Audit Objective Two

The second objective was to determine whether USAID/Botswana followed USAID's 1991 cable guidance to include in agreements or Project Implementation Letters a requirement for the host government to report at least annually on its contribution. To accomplish this objective, we obtained from the project files a copy of all project agreements, Project Implementation Letters (PILs), and any correspondence identifying the reporting requirements for each of the five projects in our audit universe. We reviewed these documents to determine whether appropriate reporting requirements had been included in either the agreement or a PIL. For the one project that lacked any reporting requirement, we followed up with the responsible Project Officer and contractor personnel to verify that reporting requirements had not been established and obtained the reasons for this. Also, we verified that the Mission was enforcing the established reporting requirements and obtaining contribution reports as required.

Audit Objective Three

The third objective was to determine whether USAID/Botswana followed A.I.D's 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews (PIRs) and (2) test the reliability of the reports during Mission site visit reviews and evaluations. To accomplish this objective, we evaluated the Mission's controls with respect to the procedures set forth in the above cable.

We obtained and reviewed the 1992 and 1993 (fourth quarter) project implementation review reports to determine if the Mission had reviewed the adequacy of the GOB's reported contributions during these reviews. We also reviewed the contribution reports to verify whether the reports contained any evidence that Project Officers assessed the reasonableness of the reported data.

To determine whether reported contributions were verified during site visits, we held discussions with Project Officers as well as host government and parastatal officials. We were unable to review field trip reports for these projects to determine if the reports addressed the reliability of reported contributions since none were prepared. Similarly, reports on prior evaluations and financial audits were not available either since there had been no evaluations and no Mission financial reviews performed on the three projects since April 1991.

In ascertaining the validity of the reported contributions, we reviewed the counterpart contribution data reported under two of the three projects that had reported contributions to the Mission - the Private Provision of Social Services (PPSS) Project (Project No. 633-0255) and the Botswana Private Enterprise Development (BPED) Project (Project No. 633-0253). For these two projects, we selected a judgmental sample of reported counterpart contributions which were traced to the supporting records on file at the Mission, the GOB ministries, and offices of other implementing agencies in order to verify whether these agencies had auditable evidence, in the form of either appropriate documentation or estimates that were based on reasonable assertions, to support the amounts reported to the Mission. Our testing of contributions reported under the PPSS Project included a review of contributions valued at \$605,098, or 53 percent of the total amount reported. In our testing of the contributions reported under the BPED Project, we reviewed counterpart contributions totaling \$683,218, representing 79 percent of the total amount reported, based on data consolidated and computed by our audit.

Audit Objective Four

The fourth objective was to determine whether USAID/Botswana adhered to USAID Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions. To accomplish this objective, we evaluated the Mission's controls with respect to the policies and procedures set forth in Handbooks 1 and 3.

We obtained and examined all Project Agreements and determined compliance with the applicable Handbook provisions. We also examined six contribution reports, provided under three projects, which were reviewed to determine whether the host country and the Mission were using the above criteria in accounting for actual contributions.

This page has been left blank.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
memorandum

Date: December 16, 1993

Reply to: *Ray Baum*
attn of: Ray Baum, A/DIR USAID/Botswana

20 DEC 1993

Subject: Draft Audit Report of Host Country Contributions

To: Everett B. Orr, RIG/A/Nairobi

Ref: Orr/Handler Memo Dated 11/15/93

We have reviewed the subject report and though we would have certainly preferred a "more friendly" rewrite, USAID/Botswana accepts the draft audit report subject to the following comments.

Page 13 of the subject report stated that the PIRs did not contain evidence that a review had been performed to assess the adequacy of counterpart resources provided during the reporting period. Although the PIRs did not specifically identify accomplishments as being funded with counterpart funds, counterpart activities were detailed in all of the PIRs. For example;

- 1) Under the social marketing component of the HIV/AIDS Prevention Project reference was made to the receipt and distribution of condoms. Condoms have always been purchased with counterpart funds not USG appropriated funds.
- 2) The Private Provision of Social Services Project PIRs reports on the acquisition of a new land fill site and construction of fencing, lighting and a weigh bridge, all funded by counterpart contributions.
- 3) The Private Sector Project PIR outlined counterpart involvement in reviewing macro economic development plans and funding financial services studies.

USAID suggests that page 13 of the subject report reflect that though these counterpart activities were discussed in the PIRs, they were not identified as funded by the host country government as part of their counterpart contribution.

BEST AVAILABLE COPY

**Audit of USAID/Botswana's Controls
Over the Botswana Government's Counterpart Contributions**

Listing of Projects Audited

Project	Project No.	PACD ^{1/} Date	Life of Project Funding	Required Host Govt. Contrib.	Total Project Funding	Host Govt% of Total Funding	Contrib. Reported (as of 4/93)
Botsw. Wrkfee. Skls. Trng.	6330241	12/31/94	\$27,000,000	\$9,034,000	\$36,034,000	25%	\$11,300,000
Botsw. Pop. Sect. Assist.	6330249	09/30/96	4,717,000 ^{2/}	1,822,000 ^{3/}	6,539,000	28%	-
Botsw. Priv. Entrpse. Dev	6330253	03/31/97	16,300,000	7,037,000	23,337,000	30%	868,266 ^{4/}
Basic Ed. Consolidation	6330254	03/31/97	12,600,000	36,650,000	49,250,000	74%	-
Priv. Prov. of Soc. Svcs.	6330255	09/30/94	830,000	1,200,000	2,030,000	59%	1,147,299 ^{5/}
		Totals	\$61,447,000	\$55,743,000	\$117,190,000	48%	\$13,315,565

^{1/} Project Assistance Completion Date (PACD)

^{2/} Excludes LOP funding relating to originally designed program (\$1,433,000).

^{3/} Required contribution amount for redesigned portion of program starting in September '92.

^{4/} Computed by auditors using exchange rate in effect at the time the project was signed (\$1 = P2.026).

^{5/} Converted to U.S. dollars by the auditors using an exchange rate computed based on information contained in the Project Agreement.

Report Distribution

American Ambassador to Botswana	1
Mission Director, USAID/Botswana	5
AA/AFR	1
AFR/SA/MBZ	1
AFR/CONT	1
LPA/XA/PR	1
LPA/LEG	1
GC	1
AA/OPS	1
M/FA	1
M/FA/FM	1
AA/G	1
PPC/POL/CDIE/DI	1
M/FA/MCS	2
M/FA/FM/FPS	2
REDSO/ESA	1
REDSO/Contracts	5
REDSO/RFMC	1
REDSO/Library	1
IG	1
AIG/A	1
IG/A/PSA	1
IG/A/FA	1
IG/A/PPO	3
IG/LC	1
IG/RM	12
AIG/I&S	1
IG/I/NFO	1
RIG/A/B	1
RIG/A/C	1
RIG/A/D	1
RIG/A/S	1
RIG/A/San Jose	1
RIG/A/EUR/W	1