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FINAL REPORT

**USING REPETITIVE DEFICIENCIES DISCUSSED
IN
IG PROJECT AUDIT REPORTS
AS A
FOUNDATION FOR RECOMMENDING MANAGEMENT IMPROVEMENTS**

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PURPOSE OF STUDY

This study was done to, (i) develop an approach to using repetitive findings in issued IG project audit reports as a foundation for developing broader issue orientated reports that could be more useful to AID management, (ii) prepare a report that would demonstrate the application of this approach and (iii) summarize the approach for presentation at the IG's Annual Central Planning Conference.

METHODOLOGY OF THE STUDY

Sixty-three project audit reports issued since October 1980 were analyzed to identify and categorize repetitive findings. Two repetitive findings were selected for further research and development. This included:

- o Analyzing the condition, cause, effect and criteria of findings presented in issued IG project audit reports.
- o Reviewing applicable AID policy and regulations.
- o Discussing the findings and potential solutions with AID management and other concerned officials.
- o Summarizing the information and presenting the approach to the Regional Inspectors' General for Audit.

RESULTS OF STUDY

Building Block Approach (Section I)

IG project audits are separately planned, implemented and reported. Consequently, the relationship that exists between similar findings in separate audit reports is not developed and the potential for recommending system-wide improvements is not always accomplished.

The IG can improve audit effectiveness and be more responsive to management needs by using the building block approach to project audits. Because of the inconsistency with which project audits are currently planned and implemented, the approach can be facilitated by developing a standard audit program for application by the separate Regional Inspectors' General for Audit.

The building block approach consists of Developing a proactive audit plan which requires specific audit issue areas to be covered in a series of project audits; Consolidating the audit results on one or more specific issue areas as presented in the several project audit reports; Supplementing the information contained in the project audit reports with additional, but limited audit work, to assure that the root causes and solutions to the issues are identified; and Preparing an audit report which covers the specific issues broadly and in depth with practical cost effective solutions to the causes identified.

REPETITIVE DEFICIENCIES (Section II)

Fourteen categories of repetitive deficiencies were identified. The most prevalent one being, "Inadequate Host Country Support Delays Project Implementation and Reduces the Potential for Project Success". This deficiency was discussed in 51 of the 63 project audit reports selected. A research approach to further quantify the deficiencies was prepared when appropriate.

Most of the audit reports provide a good description of the deficiencies being discussed, but for the most part, are not consistent with each other in the depth of audit coverage, the broadness of audit coverage, or the project areas being covered. Therefore, the information contained in IG project audit reports on similar findings do not always provide an adequate basis for preparing a consolidated issue orientated audit report which would generate constructive recommendations for improving project implementation. Also, the audit reports do not always address the root causes of the deficiencies being reported and often times lack the criteria on which the deficiencies are based.

Technical Capabilities of Host Country Personnel to Administer contracts and Account for and Control the Receipt and Expenditure of Funds Should Be Improved (Section III)

The value of host country contracts approved and monitored by Missions represents several billions of development dollars. In addition, local currency purchased with millions of U.S. assistance dollars are controlled by host country implementing agencies. The IG has issued numerous reports which have described the problems encountered in host country contracting and in host country accounting for the use of AID funds. . The primary cause of these problems as identified by the IG is the insufficient experience and competence of host country personnel to (i) adequately implement and administer the intricate AID contracting requirements, and (ii) maintain necessary financial controls which provide reasonable assurance that AID funds are used effectively and for the purposes provided. The impact of these deficiencies is failed projects and wasted money.

Host Country contracting policy and guidance

Host country rules and guidance are intricate and require extensive experience to be appropriately adhered to and applied. They are derived from U.S. Government statutes or are fundamental to AID's stewardship of U.S. assistance funds. The rules cover such subjects as competition and source of procurements. The guidance covers such subjects as choice of type of contract and contractor selection.

The policy provides that developing countries will, to the extent they have the capability to do so, implement AID-financed projects. AID management recognizes that not all countries may have this capability. Accordingly, formal or informal technical assistance was to be provided if, in the judgement of AID, the country had insufficient experience and competence. IG audit reports have shown that host country personnel did not always have the necessary technical competence to enter into and administer AID-financed contracts but the contracting function was thrust upon them and technical assistance to teach them how, as required by the policy, was not provided.

While AID did not provide training to host country personnel in the area of contracting, an extensive effort is being made to provide training in financial management. One of the more significant public administration type training projects being implemented by AID is the five million dollar, three year project entitled "Sahel Regional Financial Management Project".

Official views and current training

Representatives from AID, the World Bank, the United Nations and the General Accounting Office have agreed that additional efforts are needed by the developing countries and donor organizations to improve administration and financial management. These officials pointed out that for development to be successful over the long term, training in the area of administration and financial management should be given a high priority. Some specific training activities include:

- o AID, in addition to the Sahel Financial management project, trains host country personnel in public administration type subjects in the United States under the Participant Training Program.
- o The World Bank is providing training in financial management and some training in contracting techniques.
- o The United Nations is providing training in financial management and auditing. In addition, they make available technical publications on administrative subjects including the subject of procurement.

According to an AID official, the skill deficiencies of host country personnel in the area of public administration and financial management cannot be ignored and while the United States and other

donors have tended to do this in past years, there is renewed and increasing concern to improve the capabilities of host country personnel.

CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations are presented on two separate subjects covered in this study. First, the use of the building block approach and second, the need to train host country personnel in contracting techniques.

The Building Block Approach

The IG can improve audit effectiveness and be more responsive to management needs by using the building block approach to project audits. A proactive rather than a reactive approach is necessary to assure that issues and areas to be covered are pre-planned, root causes are addressed and audit coverage in terms of broadness and depth is consistent. Accordingly, the IG should dedicate resources toward developing a standard audit program for flexible application in implementing project audits. When developed, the IG should require, (i) audit plans to be coordinated with a view toward assuring that certain critical aspects of project management are included in selected proposed project audits, (ii) the proposed project audits be implemented by using the standard audit program, and (iii) an appropriate audit office to prepare an issue orientated audit report using the individual project audit reports issued.

Training host country personnel

Host country contracting is an important development tool because it allows countries to participate more directly in the administration of the development process. These administrative abilities are necessary if developing countries are to sustain progress. AID's host country contracting policy is based on this premise, and states that if a country does not have the capability to administer AID-financed contracts they should be taught how. IG project audit reports have

pointed out that projects fail and money is wasted because of the insufficient experience and competence of host country personnel to adequately implement and administer the intricate AID contracting requirements. Moreover, AID management has recognized the risks associated with host country contracting. Nevertheless, AID has not made any sustained effort to provide this training.

Training in the area of financial management and auditing is being given by AID and other bilateral and multilateral donors. These efforts are commendable. Particularly, the large "Sahel Financial Management Project" which is being financed by AID to an area of the world that is in dire need of training. Contracting expertise is also needed in this part of the world if projects implemented under the host country contracting methodology are to be improved and the premise of the host country contracting policy to be achieved. To satisfy this need, and promote good contracting practices appropriate to the host country, additional training efforts in the area of contracting are needed.

Accordingly, the IG should consider formulating section III of this study into an issue orientated IG audit report containing a recommendation to provide training to host country personnel. Such training should be based on the importance of sound procurement practices rather than being based on AID contracting requirements or guidance. These are compatible. Moreover, the training should be provided in the host country or region to personnel that could serve as a cadre to train others. This training effort could be considered as a separate training project or in conjunction with the financial management training currently being given by AID in the Sahel.

SECTION I

**PROJECT AUDITS AS A FOUNDATION (BUILDING BLOCKS)
FOR IMPROVING PROJECT IMPLEMENTATION**

SECTION I

PROJECT AUDITS AS A FOUNDATION (BUILDING BLOCKS) FOR IMPROVING PROJECT IMPLEMENTATION

IG Project Audits are separately planned, implemented and reported. Consequently, the relationship that exists between similar findings in separate audit reports is not developed and the potential for recommending system-wide improvements as a result of IG audit findings is not accomplished. The IG can improve audit effectiveness and be more responsive to management needs by using a building block approach to project audits.

Project Management in AID

Project management in AID, as described in the Guidebook for AID Project Officers, is the process whereby AID oversees and monitors all aspects of an AID-financed undertaking. The Project Officer is the designated AID official responsible for project monitoring and implementation. Two guidebooks have been prepared by the Agency to assist Project Officers carry out their responsibilities. They are:

- (1) Project Officers' Guidebook for Management of Direct AID Contracts, Grants and Cooperative Agreements, and
- (2) Project Officers' Guidebook for Host Country Contracting.

While the specific responsibilities placed on Project Officers under direct AID contracts, grants or cooperative agreements are different than the responsibilities under host country contracting, the Project Officer, regardless of what arrangements are used to provide project assistance, is the designated AID official responsible for assuring that projects are properly implemented, AID rules and regulations adhered to, U. S. Government resources protected and project goals and objectives achieved. In this regard, every project contains

critical areas that are and should be of concern to the Project Officer. These same critical areas should be considered by the IG as auditable issue areas when performing project audits in the field. A few of these critical areas, not necessarily in order of occurrence or importance are itemized below:

- o Project Designs and Scopes of Work
- o Selection of Contractors
- o Procurement
- o Use and Maintenance of project vehicles
- o Use and Maintenance of project equipment
- o Contractor Progress Reporting
- o AID Signs and Markings
- o Host Government Support
- o Contractor Performance
- o Financial and Accounting Controls

There are numerous other critical areas and not each critical area would apply to every project.

Depending on the nature of the project and the mode of providing project assistance (host country or direct contracting), each RIG/A should assure that the projects proposed for audit take into consideration those critical areas that will provide the foundation (building blocks) for preparing an overall issue orientated audit report. In order to assure consistency of approach by the different auditors assigned to project audits, a standard audit program should be developed encompassing the major or critical aspects of project implementation. Flexible application of the audit program would allow each RIG/A to audit those project critical areas considered vital to the project proposed for audit. Moreover, during the IG's annual planning conference, those critical areas of project management proposed by the RIG/A's can be modified to include the concerns of the IG, other AID management officials and Congressional committees prior to IG approval of the plan.

Current Project Audits

As a result of reviewing 63 project audit reports, several conclusions emerged. They are:

- (1) The audit reports are not consistent in the depth of audit coverage, the broadness of audit coverage, or project areas covered by audit.
- (2) Many of the project audits do not identify the root causes of problems and others do not adequately describe the problems in terms of condition, cause, and effect measured against appropriate criteria.
- (3) Recommendations are often times too general, apply only to the project reviewed, as they should, but do not provide management with methods to improve systems.
- (4) Many of the findings appearing in IG project audit reports are similar to findings previously reported.

A systematic approach to planning, doing and reporting on project audits such as the building block approach discussed below, could provide AID Management with more meaningful audit reports that would result in improving project implementation.

The Approach in Brief

The building block approach provides the IG with a foundation for recommending system improvements in project monitoring and implementation. It consists of DEVELOPING a proactive audit plan which requires specific project issue areas to be covered in a series of project audits; CONSOLIDATING the audit results on one or more specific issue

areas as presented in the several project audit reports; SUPPLEMENTING the information contained in the project audit reports with additional but limited audit work to assure that root causes and solutions to the issues are identified; and PREPARING an audit report which covers the specific issue or issues broadly and in depth with practical and cost effective solutions.

Suggestions

The IG should dedicate resources toward developing a comprehensive but flexible audit program for implementing project audits. When developed, the IG should require, (1) audit plans to be coordinated with a view toward assuring that selected critical aspects of project management are included in proposed project audits, (2) the proposed project audits be implemented by using the comprehensive audit program, and (3) an appropriate audit office to prepare an issue orientated audit report using the individual project audit reports issued.

SECTION II

LIST OF REPETITIVE FINDINGS FOUND IN SELECTED IG PROJECT AUDIT REPORTS

1. INADEQUATE CONTRACTOR AND GRANTEE PROJECT PROGRESS REPORTING IMPAIRS MONITORING BY PROJECT OFFICERS
2. PROBLEMS IN PROCURING, USING, AND MAINTAINING AID-FINANCED PROJECT EQUIPMENT INCREASES PROJECT COST AND DELAYS PROJECT COMPLETION.
3. AID NEEDS TO DEVELOP REALISTIC GUIDELINES FOR JUSTIFYING, PROCURING AND VERIFYING USE OF PROJECT VEHICLES.
4. INADEQUATE PUBLICITY OF AID-FINANCED ASSISTANCE PROJECTS VIOLATES AGENCY REGULATIONS AND MISSES OPPORTUNITIES TO ENHANCE U.S. INFLUENCE.
5. POOR CONTRACTOR PERFORMANCE AND/OR QUESTIONABLE CONTRACTOR COSTS REQUIRE A REALISTIC CONTRACTOR EVALUATION SYSTEM.
6. OVER AMBITIOUS AND POOR PROJECT DESIGN RESULTS IN INADEQUATE IMPLEMENTATION, UNACHIEVED OBJECTIVES AND WASTED RESOURCES.
7. INADEQUATE HOST COUNTRY SUPPORT DELAYS PROJECT IMPLEMENTATION AND REDUCES THE POTENTIAL FOR PROJECT SUCCESS.
8. POOR CONTROL OVER THE STORAGE AND DISTRIBUTION OF COMMODITIES INCREASES PROJECT COST.
9. PROCURING INELIGIBLE COMMODITIES AND SHIPPING ON INELIGIBLE CARRIERS VIOLATES AGENCY RULES AND CONGRESSIONAL INTENT.
10. INADEQUATE ACCOUNTING RECORDS AND FINANCIAL REPORTS INCREASES THE POTENTIAL FOR FUND DIVERSIONS AND INAPPROPRIATE PAYMENTS.

11. PARTICIPANT TRAINING PROBLEMS REDUCE THE POTENTIAL FOR PROJECT SUCCESS.*
12. REQUIRED IMPLEMENTATION PLANS ARE NOT PREPARED OR POORLY PREPARED, RESULTING IN PROJECT SLIPPAGE OR FAILURE.*
13. PRE-ASSESSMENT OF HOST COUNTRY CAPABILITIES IS UNREALISTIC - RESULTING IN PROJECT FAILURE.*
14. PROJECT SUSTAINABILITY IS NOT ADEQUATELY ASSESSED IN TERMS OF HOST COUNTRY ABSORPTIVE CAPACITY---LASTING PROJECT OBJECTIVES ARE NOT ACHIEVED.*

*A description and research approach for these areas was not prepared because their complexity would not allow completion under Phase II.

INADEQUATE CONTRACTOR AND GRANTEE PROJECT PROGRESS REPORTING
IMPAIRS MONITORING BY PROJECT OFFICERS

Project officers responsible for project monitoring and implementation do not, in many cases, have ready access to project activities. This is especially true for project managers in Washington because of distance; but also true of Mission project officers because of competing demands on their time. Consequently, project officers must rely on contractor/grantee progress reporting to detect implementation problems. If progress reports are not definitive and do not reflect the specific data necessary for effective project monitoring, the project officer loses an important management tool for assuring satisfactory project implementation.

According to a 1980 IG report, (XIG/A/W 81-21), AID progress reporting requirements for contractors/grantees is too broad. For example, a typical reporting requirement is "The Grantee shall submit activity and progress reports *** Each report will indicate progress and achievements *** and problems encountered and the proposed solutions ***." Areas of definitive importance not generally reported are:

- o Status of necessary or critical equipment procurements
- o Losses and damages to commodities, and
- o Percentage of effort expended to percentage of project completed.

Also, the frequency of reports required by AID varies for no apparent reason and more often than not, the required frequency of reporting is not met.

IG reports have shown that progress report content is not adequately detailed, report format (information required) is often not

indicated, and report frequency is not adhered to or always based on need. As a result, project monitoring is ineffective, and project implementation problems are not detected, and projects experience inordinate delays or fail entirely.

The Agency needs a flexible but more definitive project progress report from contractors and grantees. Flexibility is needed to adjust to the wide variety of projects implemented for AID by contractors and grantees. Definition is needed to improve the project managers ability to assure proper implementation of projects.

To further document the validity of the inadequate progress reporting problem, and develop guidelines for preparing flexible and definitive progress reports, the following research approach is suggested:

- o Gather, analyze and describe Agency policies and regulations covering contractor/grantee progress reporting requirements.
- o Determine the status of any current activity within AID addressing progress reporting.
- o Analyze and evaluate prior IG recommendations and Agency actions dealing with progress reports.
- o Select 3 or 4 current projects with Washington based project officers and analyze and evaluate the information being received on progress reports.
- o Discuss the usefulness of information being reported by contractors and grantees with project officers.
- o Obtain the views and suggestions of project officers on how project progress reports could be improved.

PROBLEMS IN PROCURING, USING AND MAINTAINING AID-FINANCED
PROJECT EQUIPMENT INCREASES PROJECT COST AND DELAYS PRO-
JECT COMPLETION

AID spends millions of dollars each year on project equipment used by intermediaries and host countries implementing AID-financed projects. Each year the IG issues numerous reports describing how AID-financed project equipment is lost, idle, poorly used, mis-used, or inadequately maintained. All of which result in project delays and added cost. IG recommendations are generally directed at obtaining refunds for equipment not needed or used, stocking and controlling spare parts, training equipment operators and mechanics, and improving equipment management controls. The Mission involved generally takes some form of corrective action, but on another project in the same country, another country, another region, the same problems will reoccur and if subject to audit will be reported on again by the IG.

Why do such problems persist in one project after another? Project Officers know that only equipment that is needed should be financed, that trained operators and mechanics are needed, and there should be a source of spare parts. Why is it so many audit reports discuss problems with the need, use and maintenance of project equipment, but have not provided AID management with the type of corrective action that would eliminate or reduce the frequency of the problem? One answer is that audits of project equipment have been too narrow. A more important reason is that IG audit reports have not identified the root causes of project equipment problems and have not made management recommendations which would provide reasonable assurance that controls to preclude or lessen project equipment problems are in place. Also, the IG has not addressed equipment problems as a separate issue across a series of project audits.

In large part, the information contained in IG project audit reports which discuss project equipment problems do not lend themselves

to a post audit consolidation because the reports do not address the problems in terms of condition, cause and effect with any degree of consistency. Also, the criteria used as a basis for developing equipment deficiencies is often times not discussed in the report. Under these conditions it is difficult to develop a significant issue orientated audit report. IG Audit Report #3-645-82-21 dated July 28, 1982 is a good example of what appears to be a major finding on project equipment but lacks adequate development in the report.

The finding on project equipment was discussed under a major side caption entitled "Project Equipment Requires Management Action". The opening paragraph under this caption does not provide the reader, or more importantly the report user, with a clear and concise description of the finding. The opening statement reads:

" Based upon our work, we do not feel that the U.S. provided equipment was being utilized as effectively as possible. We also question whether the GOS will be able to replace this equipment as planned. As discussed below, we feel USAID/Swaziland should increase its oversight of these areas."

The above statement contains faulty emphasis. That is, the emphasis is on the auditors work and feelings as opposed to the deficiency. Moreover, the opening statement and the development of the finding which follows does not contain all the elements which make up a reportable finding. These being condition, cause, effect and criteria. Here are some statements from the report:

Statement in IG Report

"AID provided loan funds for the purchase of \$10 million of construction equipment---"

Consultants Comments

The report does not list or describe the equipment, i.e., roadgraders, backhoes, etc. Also, the report does not comment on how the equipment was purchased, when it was delivered and/or needed, or when it was first put into operation.

Statement in IG Report

"***number of hours equipment was utilized each month was relatively low. ***sampled pieces of equipment *** indicated utilization of less than 40% for the three month period."

Consultants Comments

The report does not show how many pieces were sampled, the basis of selection, the type of equipment sampled (this could impact on utilization criteria) or what criteria was used to clearly show that a 40% use rate is low. Further, the report does not explain the basis used to arrive at the 40% rate. 8-hour work; 5-day week or some other basis.

Statement in IG Report

"equipment logs provided some good explanations as to why utilization was low. ***reasons noted in the logs were equipment out of order, no transportation to the construction site, no work, off for pay day, no fuel, and bad weather."

Consultants Comments

The report does not elaborate on any of these so-called explanations and doesn't include any clarifying comments from those who prepared the log. The explanations raise serious questions which are not addressed in the report. "no work" deserves some kind of follow-up.

Statement in IG Report

"We also attribute low utilization to inadequate supervision, lack of plans and deadlines. Many days the equipment was operated six hours or less, indicating a short work day, loose control over workers, and lack of urgency in getting the work done."

Consultants Comments

There are no examples or information in the report to convince anyone of these serious contentions. While they may be valid, there is nothing to substantiate these statements in the report.

Statement in IG Report

"Lack of effective utilization stems from the service trucks and the truck operators being located in *** this may take up to three hours or more a day commuting, ***".

Consultants Comments

The report offers another choice as a cause for low utilization, but has not for any of the causes of low utilization cited in the report, show in a clear and convincing manner that these causes are valid.

The important elements of a finding not included under this main side caption are (1) EFFE~~C~~T. The discussion of the finding under this side caption does not show what impact the low utilization of project equipment had on the project or AID funds, and (2) CRITERIA. The report does not describe the basis for saying a 40% use rate for construction equipment is low. Also, the recommendation in the report does not address the causes of the problem as expressed in the report.

Causes in Report

Out of order, no work, no fuel, etc., causes in log.

Service trucks and operators too far away.

Inadequate supervision, lack of plans, and deadlines.

Recommendation in report

The Mission require *** to (a) establish better use controls, so that poor utilization can be immediately identified and (b) report quarterly to USAID on the equipment usage, so AID can monitor usage.

The project equipment problems as described in this report does not provide a basis for preparing a summary report on project equipment problems. This is true of other reports discussing project equipment problems. Nevertheless, Project equipment is an important element for assuring that projects are properly implemented. The equipment is expensive and requires large expenditures on the part of AID. As such, it is an area that requires audit attention. A world-wide audit of project equipment should be considered by the IG. This can be done by providing specific guidance to RIG/A's during their planned audits of selected projects.

There is no basis for preparing an issue orientated report on the work already accomplished and reported in IG reports. This area is not considered viable for follow-up in Phase II.

AID NEEDS TO DEVELOP REALISTIC GUIDELINES FOR JUSTIFYING
PROCURING AND VERIFYING USE OF PROJECT VEHICLES

AID spends millions of dollars in procuring and providing project vehicles to host government agencies and contractors implementing AID-financed assistance projects. There is no inventory of project vehicles at the Mission or in AID Washington. Vehicles are generally authorized to be purchased by Mission officials on a project by project basis. A recent IG report (#6-263-83-2 dated February 21, 1983) discussed AID-financed project vehicles in Egypt. The audit was started because of repeated findings on project vehicles in other audit reports on projects in Egypt. However, deficiencies concerning AID-financed project vehicles is not unique to Egypt. For example, of 11 project audits selected from Africa, four had findings relating to AID-financed project vehicles.

The repetitive findings being reported on project vehicles are:

- o Unaccounted for vehicles
- o Idle vehicles
- o Unused or unused vehicles
- o Vehicles being diverted for unauthorized or personal use and,
- o Vehicles in disrepair.

In the Egypt audit report, it was pointed out that there was no control of project vehicles. Auditors could not precisely identify or calculate how many project vehicles were in Egypt. By interview they calculated that there were at least 889 AID-financed project vehicles, costing about \$8 million. Significant deficiencies were developed for a large number of these vehicles, but some of the more potentially serious questions not being reported on or asked are:

- o Could costs for procuring project vehicles be reduced if purchased on a centralized basis by the Mission, Bureau, or Agency?

- o Could logistics support and maintenance of project vehicles be reduced if like or similar vehicles were purchased by country or area and consideration was given to using vehicles that are already prevalent in the host country?

- o Could the use of project vehicles for purposes provided be improved if Missions were required to maintain a central inventory and a reporting requirement.

Mis-use, non-use and abuse of project vehicles is occurring because Mission Managers have not exercised adequate control over AID-financed project vehicles. As a result, unneeded vehicles are being provided, needed vehicles are in disrepair and project vehicles are used for unauthorized purposes at great expense to AID. The Agency needs to develop a more systematic approach toward justifying, procuring and controlling project vehicles. This can be done by promulgating realistic guidelines to assist Missions in, (1) assuring the need for project vehicles is valid, (2) obtaining the best price for vehicles (or assisting others in getting the best price, and (3) verifying that AID-financed project vehicles are properly maintained and used for the purposes provided.

An IG survey or audit approach to develop and quantify the significance of poor project vehicle use on a world wide basis can be readily prepared. However, in order to address those problems that potentially result in a more costly operation for the Agency, certain premises need to be explored.

1. If Missions could forecast project vehicle needs far enough in advance, could AID/W provide centralized procurement support or use the central vehicle procurement activities of other U.S. Government Agencies?

2. Could a standard all-purpose vehicle be identified for use throughout the developing world or by AID geographical area (i.e. Latin America)?
3. Can AID reasonably estimate its project vehicle needs by fiscal year and would that result in a quantity of vehicles that would justify a central procurement approach?
4. Could a central procurement approach for vehicles include project vehicles purchased by contractors under host country contracting arrangements.

INADEQUATE PUBLICITY OF AID-FINANCED ASSISTANCE PROJECTS
VIOLATES AGENCY REGULATIONS AND MISSES OPPORTUNITIES TO
ENHANCE U. S. INFLUENCE

Project agreements normally provide that appropriate publicity be given to U. S. assistance. This is done to inform the citizens of recipient countries that U.S. financed assistance is being provided to them and their country. Publicity of U.S. financed assistance is usually accomplished by signs and markings at project sites and on commodities and equipment. The AID hand clasp symbol is the marking most often used. The Mission Director may waive the marking requirement when he or she finds that the appearance of the emblem would produce host country adverse reaction.

According to IG audit report #2-492-82-09 dated April 28, 1982, appropriate publicity to the United States implements a provision of the Foreign Assistance Act. The interest of Congress in assuring that the United States is given appropriate recognition for its assistance is further implied by a request from the Senate Appropriations Sub-Committee on Foreign Operations to the IG asking if AID is assuring that "***the citizens of recipient countries know that our AID projects are what they are - American financed aid to them and their countries".

Several IG project audit reports have pointed out that signs and markings publicizing U. S. financed assistance are not being used. Some brief examples are:

- o IG Report #1-522-81-9 dated February 25, 1981 stated:

"Signs noting the shared participation of the Governments of Honduras and the United States in financing the project were not being displayed at construction sites. Likewise, the vehicles and equipment acquired with loan funds were not marked with appropriate emblems.

- o IG Report #2-492-82-09 dated April 28, 1982 stated:

"Signs and plaques were not posted at many project sites to give appropriate publicity to AID".

- o IG Report #3-660-82-17 dated June 9, 1982 stated:

"None of the scouts, motorcycles or motor bikes carried the emblem. Several pieces of farm machinery, as well as various other equipment, also did not have appropriate markings".

Despite AIDs requirement to assure adequate publicity for U. S. assistance, IG project audit reports show over and over again that this is not being done. For the most part, the IG audit reports recommend that the Mission "place appropriate AID emblems on the equipment as required by the agreement" or that the Mission "assure that appropriate markings are placed at all construction sites and completed projects, and that all vehicles and equipment acquired for the project are marked with appropriate emblems".

The persistence of this deficiency raised two basic questions:

1. Who represents the Agency concerning project implementation for assuring that Agency requirements and/or rules are adequately enforced, and
2. How and by what means can AID assure that regulations and rules are enforced?

WHO? According to the Guidebook for AID project officers, project management is described as the process whereby AID oversees and monitors all aspects of an AID/Financed undertaking. The Guidebook describes the

project officer as the designated AID official responsible for monitoring performance under the project in order to assure the attainment of project objectives and to safeguard AID's interests and investments. Therefore, the project officer is responsible for assuring that AID receives recognition for its assistance.

HOW? Source material to assist project officers carry out their responsibilities is contained in the Project Officer Guidebooks and Handbook 3. However, these sources of information do not, with any degree of specificity, discuss the requirement for publicizing AID/Financed assistance. Both sources, however, include a format that with slight adaptation could facilitate (1) reminding project officers of the need to ensure that AID financial assistance is publicized when appropriate, and (2) provide a record of actions taken by the project officer. These formats are:

- o The implementation and progress monitoring checklist to assist project officers in carrying out their duties. (Handbook #3, Chapter 11, Paragraph B and Appendix 11A)
- o The project officers prescribed report of site visit (Project Officer's Guidebook Attachment A to Appendix E)

Developing a more specific check list to be included with the report of site visit could heighten the awareness of project officers to assure that certain AID requirements are being adhered to. Also, such a check list would facilitate situations where the project officer arranged to have specific monitoring tasks assigned to others such as local nationals.

Additional research necessary to finalize this area is:

1. A detailed review of IG reports and recommendations addressing this subject.
2. A complete analysis of AID regulations covering this subject including legislative requirements.
3. An in-depth analysis of project officers' duties as described in appropriate AID documents to ascertain if other AID requirements could be made more visible to project officers by the use of a checklist to be used in conjunction with site visits.
4. Discussion with AID management officials to obtain their views on amending or developing a checklist to be used in conjunction with the project officers current report of site visit.
5. Discussion with active project officers (Washington based and/or overseas based) to determine problems with the current site visit report and to obtain views on the use of a checklist.
6. Development of a proposed outline check list that would address the publicity deficiency reported on by the IG as well as other problems that could be made more visible to the project officer by use of a check list.

POOR CONTRACTOR PERFORMANCE AND/OR QUESTIONABLE CONTRACTOR
COSTS REQUIRE A REALISTIC CONTRACTOR EVALUATION SYSTEM

AID technical and contracting officers need to have as much information as practical about the past performance of a contractor or grantee before entering into a new contract or grant. Good information on past performance can avoid the bad performer, those who have planned to obtain reimbursement for costs not incurred, or those that consistently keep poor accounting records. Prior to September 1981, a Contractor Performance Evaluation System that was limited to AID direct contracts, was used to provide past performance information. This system, which was considered to be one of the more ambitious and rigorous systems in the Federal Government was discontinued because:

- o Few evaluations were submitted by project officers; those submitted were never critical of the contractor; and little use was made of the evaluations by those selecting contractors. In substance, the system was considered by AID management, on the basis of a consultants report, to be non-functional
- o there was no specific OMB or GAO guidance, and
- o other Agencies used a variety of approaches less rigorous than AIDs.

In place of the rigorous but non-functioning system, a new, less formal system, was approved by the Administrator in September 1981. This system requires those who are selecting a contractor or grantee to contact project officers for previous work experience and solicit specific information on prior performance. The Office of Contract Management jointly with the Office of Management Planning was to provide leadership for implementing the new system.

In the absence of accurate background information on the past performance and financial integrity of contractors, and grantees, AID

officials entering into contracts and grants may be burdening the Agency and the project officer with an incompetent implementing intermediary. AID relies heavily on intermediaries (contractors and grantees) to design, implement and in many cases, evaluate its assistance projects. Intermediaries are obtained under a direct contract or grant, or under a host country contract. Under a direct contract or grant, project officers, because of location, distance, or competing demands on their time, must rely on the good performance of the intermediary. Under a host country contract, AID project officers involvement with the intermediary is less direct; consequently, the project officers reliance on the intermediary for good performance is even greater. Moreover, an incompetent intermediary under a host country contract could damage a U.S. agency's reputation for efficiency and effectiveness. Therefore, regardless of the method used to provide U. S. project assistance, it is highly important to have as much valid information as practical about the past performance of those intermediaries selected or approved to implement AID project assistance.

The viability of the current informal contractor evaluation system is questionable because of the global nature of AID operations and the frequency of AID staff (project officers) reassignments. Accepting the view of AID management that the Contractor Evaluation System previously used was too ambitious and rigorous and became non-functional* some adjustment to supplement the current informal information gathering system of the past performance of intermediaries is needed. This supplemental information, though not all encompassing, can be obtained from

*In supporting the change of systems to the Administrator, AID's Management Office said none of the contractor evaluation reports submitted rated the contractor as unsatisfactory. IG audit report #81-21 dated November 26, 1980 said that 71 out of 2,177 contractors had unsatisfactory evaluations.

IG audit and investigative reports and Agency evaluation reports if systematically provided, catalogued by contractor/grantee and used by those awarding grants and contracts.

To further document the need for supplemental information on the past performance of potential intermediaries, the following research approach is suggested:

1. Review selected IG audit reports, working papers and audit recommendation follow-up file relating to contractor evaluations.
2. Obtain and analyse current AID policy on the contractor evaluation system as proposed in September 1981.
 - (a) was the system formalized?
 - (b) were written procedures prepared and disseminated?
 - (c) was the new system monitored and evaluated as stated in the memo to the administrator?
3. Discuss the system with its users and determine:
 - (a) the extent of difficulty in locating and contacting prior project officers
 - (b) the extent to which the new system is documented in the file and used
 - (c) the extent to which those providing background information were willing to discuss unsatisfactory performance by intermediaries

(d) how many intermediaries were considered unsatisfactory and refused a contract or grant under the new system.

4. Determine the extent to which IG audit and investigative reports were used to evaluate the past performance of contractors.

(a) Is this use documented in the file?

5. Determine the extent to which the past performance of contractors based on activity with other Agencies of the U. S. Government is taken into consideration.

6. Obtain examples of contractors with poor performance that have received follow-on contracts with AID.

7. Develop examples where Agency evaluations, IG audit or investigative reports showed poor intermediary performance but contracts were awarded because the benefit of that information was not used or unavailable for use.

8. Are U.S. Contractors under host country contracts evaluated? If so, by whom and how is the evaluation documented?

OVER AMBITIOUS AND POOR PROJECT DESIGN RESULTS IN INADEQUATE
IMPLEMENTATION, UNACHIEVED OBJECTIVES AND WASTED RESOURCES

A well prepared project design is a blueprint for successful project implementation. Design tasks would include:

- o a precise definition of project objectives,
- o a determination of the means by which those objectives will be attained,
- o an estimation of resources needed and possible supply and financial arrangements,
- o methodology for taking the required actions, and approaches for overseeing and measuring results.

The Project Paper contains the basic design of the project. The Project Implementation Order/Technical Services (PIO/T) is the official AID document which formally initiates the contracting or grant procedure and which prescribes the services required (scope of work), the estimated costs and time period, logistical support arrangements, and other details necessary to facilitate and negotiate a responsive contract and grant.

Numerous IG reports have attributed poor project implementation to over ambitious or weak project designs. For example:

- o project papers did not provide quantifiable indicators with which to measure progress
- o project papers did not describe relationships between parties responsible for project implementation
- o project design failed to recognize limited institutional capabilities of the host country.

The project review process in AID is elaborate. The review is made by Project Review Committees and many specialist. Yet Project Design deficiencies continue to be reported by the IG and are often times characterized as being the cause of project failures. In a November 1980 report, the IG suggested that more emphasis be placed by Bureau management officials on critically reviewing project design for reasonableness and adequacy of detail. A formal recommendation was not made and management officials already felt that they had a detailed time consuming project review process. In a May 1983 IG report, the failure of a project for which \$9.2 million had already been spent was terminated. The IG attributed this failure to an over ambitious project design that did not take into consideration the limitations of the host country, and a project paper that contained insufficient detail and guidance on how project objectives were to be implemented. Recommendations affecting the cause of project failure (poor project design) were not made because the Assistant Administrator responsible for the project had the project terminated for poor implementation and improper financial practices.

An overall issue orientated report on project design problems by the IG could provide AID management with a basis for improving this vital area so necessary for project success. The information contained in those project audit reports which address this area are not in sufficient detail or consistency which would allow successful consolidation. This area is not considered viable for follow-up in Phase II.

**INADEQUATE HOST COUNTRY SUPPORT DELAYS PROJECT
IMPLEMENTATION AND REDUCES THE POTENTIAL FOR
PROJECT SUCCESS**

To a great extent the success of a project depends on the host countries willingness and ability to support the project with competent staff and local currency resources of sufficient magnitude to demonstrate a commitment to the project. Many of the host country support elements are made a part of the project agreement and other elements of host country support are required by AID regulations and Foreign Assistance Act legislation.

An IG report which discusses typical problems being encountered with host country support is IG report #5-367-81-2 dated October 16, 1980. In substance, the report attributed implementation problems to poor host country support which in the auditors view was due to a lack of interest in the project by host country personnel. For example:

- *** The host country did not appoint a Project Director even though this was required by the project agreement.
- *** The host country did not provide sufficient personnel, as required, to impleement the project.
- *** The host country did not contribute their share of at least 14% of the total project cost as required by the agreement.
- *** The host country's lack of interest in selecting participants and using trained participants had a negative impact on the project and impaired the efforts of the implementing intermediary.

The ability and willingness of a host country to support an AID-financed project is necessary if the project is to achieve its objectives and be sustained as a viable contribution to the countries development when AID assistance to the project is complete. Numerous IG reports have shown that poor host country support has had a negative impact on project implementation. An analysis of these reports, however, does not provide a basis for preparing an overall consolidated report that could address the host country support issue in a meaningful way. Nevertheless, there is sufficient information to warrant a systematic IG review of host country support. There are a number of important audit steps that should be considered when auditing host country support. A standard project audit program would assure that the most vital audit steps are being considered by the audit staff in some form of consistent approach. One of the important steps is to assure that legislative requirements are being met. For example, is the 25% host country contribution required by the FAA being provided, and if not, was it appropriately waived. If provided, in what form -- assistance in kind, or local currency? If assistance in kind, how was it valued? Was it additional cost to the host country or was it cost already being incurred as part of the countries normal costs.? Does AID accept normal host country expenditures (those that would be incurred by the host country whether AID was implementing a project or not) as satisfying the 25% legislative requirement?

These and questions like these could be developed for a world wide audit of host country support or could be made a part of a standard project audit program that could be applied by RIG/A's as appropriate.

The information contained in those IG reports which address host country support problems are not in sufficient detail or consistency to allow for successful consolidation into a meaningful report that could provide AID management with some specified recommendations to improve this area. This area is not considered viable for follow-up in Phase II, but should be addressed in selected project audits on a pro-active basis to provide the foundation necessary for an overall issue orientated report.

POOR CONTROL OVER THE STORAGE AND DISTRIBUTION OF COMMODITIES
INCREASES PROJECT COST

Effective utilization of AID-financed goods and commodities requires that they reach the ultimate user on a timely basis in a usable condition and are in fact used for the purposes provided within a prescribed period of time. AID Regulation 1, requires that adequate records be maintained to document the arrival and disposition in the host country of all commodities financed by AID. The AID handbook requires that project implementation plans include procedures for monitoring progress to assure that commodity inputs are received and utilized in a timely manner.

Numerous IG project audit reports have shown that commodities were not properly accounted for upon receipt, controlled while in storage or being distributed, or used for the purposes provided by the recipients intended. These deficiencies are usually attributed to poor record keeping, inadequate monitoring on the part of AID and those intermediaries implementing AID projects, or poor host government controls.

An IG report (#1-532-83-6) dated February 4, 1983 provides a typical deficiency concerning the controls over the receipt, storage and distribution of commodities. The opening paragraph under the captioned finding entitled "Controls Over Commodities" states:

"Procedures to manage commodity procurement and distribution under the project needed improvements. Controls over receipt and distribution were lax. Standardized property records and controls have not been established. As a result, neither the (host country) or the (Mission) was able to determine how much of the approximately \$2.7 million worth of commodities had been received and utilized."

An important element of this finding is elaborated on in the discussion following the opening paragraph. That is, the host country recipients did not know if the commodities purchased were ever received. Also the impact of the unaccounted for, lost or never received commodities on the status of the project is not mentioned. The recommendations in the report are directed at reconciling purchases with receiving reports and usage reports and establishing property records and control systems. These are the very things which AID handbooks and regulations require. The finding as presented in the report does not in fact mention these requirements.

The use of commodities in AID-Financed projects is significant in terms of dollar costs and AID's concern with controls over commodities is adequately expressed in handbooks and regulations. However, IG reports continue to discuss commodity deficiencies as the lack of adequate controls to assure that what is purchased and paid for is in fact received in country, is properly stored and accounted for, and is distributed to the intended recipient in a timely manner. The report cited above and the recommendations are directed at resolving the conditions noted in the audit report but will not cure the causes of the problem. In fact, the host country Ministry responsible for the project believes the causes of the commodity control deficiency are "(1) the lack of adequate personnel to oversee the entire process and to institute the standardized system of records and controls; and (b) the lack of cooperation by the various schools to submit reports and maintain records."

In view of the above, should the Agency consider including a condition precedent in the project agreement which would require the host country to demonstrate to the Mission that an adequate system for receiving, storing and distributing AID-Financed commodities is in place. The precedent could be used when the commodities are a significant cost element of the project or exceed a dollar limitation. Also, the condition could be one that is required to be met before expenditures are made.

To further document and quantify the extent of inadequate controls over AID-Financed commodities and to test the viability and potential benefits of recommending the use of a condition precedent in the project agreement, the following research approach is suggested:

1. Review audit workpapers and recommendation follow-up system to further develop impact of findings and status of actions on recommendations.
2. Gather, analyze and describe Agency policies and regulations covering commodities and the use of conditions precedent.
3. Determine the status of any current activity within AID addressing commodity problems.
4. Review selected project documentation to demonstrate the significant cost associated with project commodities.
5. Discuss the viability of requiring a condition precedent to assure that proper controls and systems for the receipt, storage and distribution of commodities is in place and operable before expending project funds with appropriate Agency officials.
6. Solicit from Agency officials alternative methods of assuring controls over project commodities.

PROCURING INELIGIBLE COMMODITIES AND SHIPPING ON INELIBIBLE
CARRIERS VIOLATES AGENCY RULES AND CONGRESSIONAL INTENT

According to AID handbook 15, a commodity transaction may be eligible or ineligible for AID financing "****based not only on the nature of the commodity, but also based on its source, use, price, etc. Commodity-related services (defined as delivery services and incidental services), must meet similar tests of eligibility." Despite the extensive rules and guidelines contained in handbook 15, IG auditors continue to find that ineligible commodities are purchased and ineligible carriers used. Moreover, some of these reports have shown a lack of understanding on the part of Mission officials concerning the requirements and restrictions applying to commodities as discussed in AID handbook 15. Here are some examples:

- o Report #2-492-83-5 dated March 23, 1983
The report showed that an ineligible commodity was purchased and that some commodities were shipped on ineligible carriers. (Denmark & German Vessel Registry). According to the report, the cause of these errors could not be readily determined. The report recommended recovery of ineligible freight charges but did not discuss the rules contained in AID handbook 15 which states "Commodities are ineligible if shipped on a vessel which AID has designated as ineligible." Neither the Mission or the auditors raised the question of the commodity eligibility.

- o Report #3-650-82-34 dated August 31, 1982
The report shows that \$84,000 worth of commodities were purchased by an implementing intermediary (US Contractor) from an ineligible

source. The report recommended that the Mission determine the exact amount of ineligible commodities purchased and settle with the contractor. The Mission suggested a retroactive waiver which the report said was inappropriate but did not cite the source or criteria for its position.

Of particular interest is report #1-532-83-6 dated February 4, 1983. This report also raised the issue of retroactive waivers and retroactive ratifications. In effect, after ineligible commodities were purchased, the Mission attempted to obtain approval from AID/Washington for buying ineligible commodities. The report discusses this situation in detail and recommends that the applicable AID handbooks be examined and clarified with respect to the need for prospective, rather than retroactive, approvals for normally ineligible commodity transactions. The handbook is quite extensive and provides a list of ineligible commodities by type and describes how to REQUEST a waiver based on eligibility constraints.

There are a number of other IG reports which discuss this type of finding but the information contained in the reports is not presented in a manner that would facilitate preparing a consolidated issue oriented report. This area would be one that should benefit from a comprehensive audit program for implementing project audits. This area is not considered viable for follow-up in Phase II.

INADEQUATE ACCOUNTING RECORDS AND FINANCIAL REPORTS
INCREASE THE POTENTIAL FOR FUND DIVERSION AND
INAPPROPRIATE COSTS

Of 63 IG project audit reports selected for review, 39 contained deficiencies that related to accounting or financial control problems. Some brief examples of findings included in IG reports are characterized below:

- o A host government did not maintain financial records to account for contributions as required by the agreement.
- o An AID mission was not properly accounting for cash advances.
- o Host government officials were not adequately controlling sales proceeds generated under an AID-Financed project as required.
- o A consultant hired under a host country contract did not keep adequate accounting records to assure the validity of cost claimed.
- o Controls over advances provided to contractors-/grantees under host country arrangements are not adequate.
- o A U. S. based contractor working under a CPTF contract did not maintain adequate records to support costs charged to the contract.
- o Supporting documentation for in-country costs incurred by a U. S. contractor under a host country contract were unavailable.

- o Inadequate accounting records were kept by a host government; as a result, funds could not be accounted for.

- o Windfall profits will accrue to a U. S. contractor under a host country contract because of host government technical limitations.

The IG has issued numerous reports addressing problems in accounting and controlling AID funds. These findings relate both to poor AID management practices as well as technical deficiencies with host government operations. In addition, the IG has issued numerous reports which discuss the problems in host country contracting. IG reports have clearly demonstrated that host country contracting can be more expensive with less control over the validity and appropriateness of costs charged to contracts negotiated and administered by the host government. Under these conditions, it seems appropriate that the thrust of our building block approach be directed toward the consolidated problem of contract cost control and host country contract negotiations.

HOST COUNTRY CONTRACTING POLICY

As part of an overall AID thrust to place more responsibility for development on the host country, AID's policy is to have the recipient country perform the procurement function. The original policy statement recognized that many developing countries did not have the capability of doing this and therefore stated that if a recipient country did not have the capability, AID should provide the necessary technical assistance to teach them. According to an IG report (#0-000-81-142) dated September 30, 1981, only the first half of the AID policy was implemented. That is, the responsibility for contracting was given to the host country.

The second part of the policy, teaching those countries that did not have the knowledge and technical skills to negotiate, administer, and monitor cost incurred under host country contracts, was never applied.

CURRENT AGENCY EFFORTS

Discussions with AID personnel have shown that the Agency Administrator has encouraged efforts to provide needed technical assistance to developing countries. Also, the Agency has suggested that funds be set aside for audits of host country contracts. In this regard, the IG is currently finalizing a policy for using non-Federal auditors to review costs incurred under host country contracts. Even before this policy was articulated, the AID Mission in Cairo issued a contract to a U. S. based CPA firm to audit selected host country contracts. These efforts, while worthwhile, do not fulfill one of the principle reasons for using the host country contracting procedure. Handbook 11 "Country Contracting" states quite clearly that "A fundamental principle of AID has been that the countries it assists should, themselves, undertake the implementation of their development programs, *** the process of implementation is itself an important opportunity for development of technical, institutional and administrative skills." If they do not have the technical skills, we should teach them. As previously stated, an IG report has shown that the teaching of contract negotiation and administrative skills has not been done.

WHERE WE GO FROM HERE

An IG report developed on the basis of information contained in the numerous reports which discussed cost problems and technical problems with host country contractors could be used as a basis for recommending the Agency make a concerted effort to identify the contracting agency of selected countries needing technical assistance in the area of contract and financial management for the purpose of developing a technical assistance package for a project paper in sup-

port of a public administration type project. The following approach to further develop this area is suggested below:

1. Review prior IG reports and supporting workpapers that discuss host country contract problems as they relate to cost matters.
2. Research and analyze AID policy and guidance relating to host country contracts. In addition, discuss with appropriate personnel the use made of the cost principles included in the guidance provided for host government contracts. Do these cost principles differ from the FPR cost principles and if so why?
3. Determine to what extent AID has provided technical training or assistance to the personnel of host countries responsible for such administrative duties as contract negotiations, cost analysis, contract administration and contract cost auditing. Concerning the latter has any technical assistance been directed at providing host country personnel with the rationale behind establishing criteria on the allowability, allocability and reasonableness of U. S. government cost principles. Also, has technical assistance in terms of the types of contracts to be used been provided.
4. Has AID established a policy or provided guidelines on what to do when costs under a host country contract are recommended for recovery? Who negotiates with the contractor? Who receives the funds? What can the returned funds be used for?
5. Has AID tried to obtain assistance from other U. S. Agencies in terms of providing technical assistance in the areas of contract negotiations, administration and cost analysis.

Have any precedents been established for this type of assistance? Is Treasury/GAO assistance to Saudi Arabia a precedent or a potential model?

Discuss with appropriate AID personnel the advantages and disadvantages of developing a public administration type project. Could the Agency anticipate Congressional objection on the basis of the "New Directions" legislation? Has AID ever been criticized for not providing this type of assistance before?

SELECTED
IG PROJECT AUDIT REPORTS

<u>REPORT</u>		<u>SHORT TITLE</u>
<u>NUMBER</u>	<u>DATE</u>	
1. 2-492-81-6	12/29/80	Disaster Rehabilitation
2. 2-497-81-7	2/ 9/81	Rural Electrification
3. 2-497-81-13	5/18/81	Irrigation Equipment
4. 2-493-82-3	1/13/82	Sericulture Project
5. 2-492-82-7	3/25/82	Marketing Project
6. 2-492-82-9	4/28/82	Rural Roads
7. 2-492-82-14	8/31/82	Energy Development
8. 2-493-83-2	1/26/83	Intergrated Agriculture
9. 2-492-83-5	3/21/83	Crop Protection
10. 2-492-83-6	3/30/83	Fisheries Development
11. 6-263-81-10	6/15/81	Sewerage Projects
12. 6-263-81-11	6/16/81	Poultry Improvement
13. 6-263-82-1	10/22/81	Pipe Drainage
14. 6-263-82-2	11/29/81	Suez Cement
15. 6-263-82-3	12/ 7/81	Port Equipment
16. 6-263-82-6	6/24/82	Aquaculture Development
17. 6-263-82-7	7/ 7/82	Decentralization-One Project
18. 6-263-83-1	11/30/82	Tax Administration Project
19. 3-632-81-3	12/16/80	Land and Water Resource
20. 3-633-81-4	12/30/80	Housing Guaranty Project
21. 3-633-81-6	3/31/81	Manpower Development
22. 3-664-81-14	8/14/81	Nutrition Planning
23. 3-649-82-3	12/10/81	Settlement Project
24. 3-650-82-11	3/31/82	Intergrated Agriculture
25. 3-660-82-17	6/ 9/82	Institutional Support Project
26. 3-645-82-21	7/28/82	Rural Development
27. 3-621-82-22	8/20/82	Village Development Project
28. 3-650-82-24	8/31/82	Manpower Development
29. 3-608-82-27	9/29/82	Dryland Agriculture
30. 7-688-82-1	9/20/82	Operation Haute Vallee
31. 7-698-83-1	11/16/82	SAFGRAD Project
32. 7-683-83-2	2/10/83	Niamey Department Development
33. 7-688-83-3	5/ 3/83	Operation MILS MOPTI
34. 1-515-81-4	12/12/80	Agriculture Commodity Systems
35. 1-525-81-5	12/31/80	Rural Cooperative Development
36. 1-521-81-6	1/ 7/81	Emergency Food Production
37. 1-525-81-11	3/31/81	Marketing System Project
38. 1-522-81-16	5/22/81	National Nutrition Planning
39. 1-518-81-19	6/30/81	Small Business Employment
40. 1-522-81-9	2/25/81	Hurricane Reconstruction
41. 1-519-82-4	12/17/81	Agrarian Reform Credit
42. 1-522-82-6	1/29/82	Rural Electrification
43. 1-525-82-7	3/ 3/82	Watershed Management
44. 1-520-82-10	4/28/82	Small Farmer Development
45. 1-518-82-17	9/30/82	L.A. Community Union

46.	1-527-83-4	1/24/83	Sub-tropical Lands
47.	1-532-83-6	2/ 4/83	Rural Education
48.	5-367-81-2	10/16/80	Radio Teacher Training
49.	5-391-81-5	11/25/80	Fertilizer Project
50.	5-388-81-8	2/25/81	Rural/Agriculture Projects
51.	5-386-81-9	4/27/81	Irrigation Project
52.	5-367-81-12	5/21/81	Selected Agriculture Projects
53.	5-279-81-13	5/27/81	Sewage Construction
54.	5-383-81-16	8/19/81	Selected Water Resources Project
55.	5-388-82-4	11/29/81	Food For Work Project
56.	5-383-82-6	5/18/82	Rice Research Project
57.	5-386-82-8	7/13/82	Agriculture Development Credit
58.	0-000-81-20	11/26/80	Management of AID/W Projects
59.	0-635-81-61	3/27/81	Food Crop Protection
60.	0-000-81-112	7/28/81	Vocational Training Project
61.	0-688-81-139	9/24/81	Project Action Ble
62.	0-669-82-60	3/25/82	Village Development Fund
63.	0-657-83-64	5/13/83	Agriculture Production Capacity

FREQUENCY
OF
REPETITIVE FINDINGS

<u>FINDING CATEGORY</u>	<u>TIMES REPEATED</u>	<u>PERCENTAGE</u>
Project Progress Reporting	18	.29
Project Equipment	13	.21
Project Vehicles	12	.19
Markings and Signs	8	.13
Contractor Evaluations	25	.40
Project Design	34	.54
Host Country Support	51	.81
Storage/Distribution of Commodities	39	.62
Accounting and finance	35	.56
Participant Training	23	.37
Ineligible Commodities/Carriers	6	.10
Implementation Plans	33	.52
Host Country Capability	12	.19
Absorbative Capacity	20	.32

SECTION III

**THE TECHNICAL CAPABILITIES OF HOST COUNTRY PERSONNEL TO
ADMINISTER CONTRACTS AND ACCOUNT FOR AND CONTROL THE
RECEIPT AND EXPENDITURE OF FUNDS SHOULD BE IMPROVED**

SECTION III

THE TECHNICAL CAPABILITIES OF HOST COUNTRY PERSONNEL TO ADMINISTER CONTRACTS AND ACCOUNT FOR AND CONTROL THE RECEIPT AND EXPENDITURE OF FUNDS SHOULD BE IMPROVED

The value of host country contracts approved and monitored by Missions represents several billions of development dollars. IG reports have pointed out and it is a generally accepted view that there are serious deficiencies in host country contracting. As a result, AID development objectives are frequently not achieved and large amounts of financial resources are wasted. The deficiencies, in part, have been attributed to the insufficient experience and competence of host country personnel to apply the analytical and regulatory skills needed to successfully enter into AID-financed contracts. This is true even though Missions must evaluate and certify the existence of technical capabilities of host countries prior to approving the host country contracting method.^{a/} The procedures are necessary because AID is accountable for the funds appropriated by the Congress for development purposes. Accordingly, the host country contracting procedure and the resultant contract must be acceptable to AID.

The procedures and technical considerations required include contractor selection, contract type, contract negotiations, proposal evaluations, cost analysis, monitoring, evaluating and auditing.

In addition to deficient host country contracting, the IG has highlighted in numerous audit reports inadequate host country accounting and financial control procedures. IG reports have shown that millions of dollars in local currencies could be diverted and used for purposes other than

^{a/} IG audit reports have also shown that the information necessary to assess host country capabilities had not always been collected or analyzed as required.

intended by AID. In the Sahel, the problems were so serious Congress now requires, for Sahel projects, that AID assure the host government has an adequate system to account for and control the receipt and expenditure of project funds before project approval. Inadequate accounting systems and procedures, like deficient contracting capability, has been attributed to the lack of adequate technical capabilities on the part of host country personnel.

Providing host country personnel with the technical expertise necessary to apply the intricate contracting procedures required can be achieved by initiating an appropriate technical assistance project dedicated to improving the administrative skills of qualified host country personnel having tenure in an appropriate host government position, or expanding a related training project. Technical assistance training on financial management and controls is being provided by AID and other donors. Also, AID has taken a number of steps to improve host country contracting.

HOST COUNTRY CONTRACTING - THE POLICY

The host country contracting Policy Determination (PD-68) became effective on October 27, 1976. The policy provides that developing countries will, to the extent they have the capability to do so, implement AID-financed projects. The majority of AID project activity is carried out by intermediaries under a direct AID contract or a contract entered into by a host country agency. These latter contracts are referred to as "host country contracts." PD-68 was incorporated into the appropriate AID handbooks. The information in the Handbooks and PD-68 are consistent and provide Agency managers with adequate information to implement the policy.

Since its inception the host country contracting policy has been modified to allow AID Missions more flexibility in choosing whether or not it is appropriate to implement projects under the host country contracting method. A

significant change occurred in February 1982, which allowed AID Missions to increase the use of direct AID contracts. Also, in 1983 the Administrator approved a number of requirements relating to host country contracting which should have a positive impact on identifying host country capabilities. The more important aspects of the host country contracting policy are characterized below:

- Countries should themselves undertake the implementation of their development programs.
- The ultimate responsibility for all development projects rest with the cooperating country.
- Project implementation itself is an important opportunity for development of technical, institutional and administrative skills.
- Formal or informal technical assistance should be provided to the appropriate host country entity if in the judgment of AID the country has insufficient experience and competence.
- Prior approval of country contracts by AID will serve as a safeguard of effective contracting.

The primary purpose of AID Handbook 11 (COUNTRY CONTRACTING) is to provide suggested methods of contracting procedures to borrower/grantee countries for all types of host country contracts. In that regard, the Handbook discusses Procurement of Professional and Technical Services; Procurement of Construction Services; Procurement of Equipment and Materials; and Cost Principles for Borrower/Grantee Contracts. To supplement the requirements of Handbook 11, AID prepared a host country contracting "Project Officers' Guidebook" primarily to assist AID project officers in meeting their responsibilities for the oversight of AID-financed host country contracts. The Guidebook also

provides host country project officers, managers and host country contracting agencies useful guidance in the administration of AID-financed contracts.

At the time the host country contracting policy became effective in October 1976, the concept was already being extensively used. According to the then Assistant Administrator for Management, the World Bank and other international financing institutions used essentially the same host country contracting mechanism proposed by AID. Moreover, AID itself had extensive experience with host country contracting since that method was used for capital development type projects.

Despite the historical experience of AID and other international lending institutions with host country contracting, the policy clearly recognized that not all countries may have the technical skills or the competency to effectively enter into and administer AID-financed contracts which, because of AID's accountability, were subject to intricate but necessary contracting requirements. Therefore, a provision is included for AID approval of the contract, and for providing formal or informal technical assistance when, in the judgment of AID, the country or its implementing/contracting agencies do not have sufficient experience or competency to effectively use the host country contracting method. A September 30, 1981 IG audit report pointed out that many countries using the host country contracting method did not have the capability to effectively use the method but the procurement function was thrust upon them without adequate technical assistance to teach them how to do it.

The inability of developing countries to use the host country contracting method consistent with AID requirements is particularly acute in Africa. This could have been anticipated since assistance to West Africa prior to 1976 was limited and those countries using the host country contracting method in West Africa have had little

experience. Not only is the technical competence for contracting limited in these least developed countries of Africa but the capability to manage and control large sums of local currency generated from U.S. assistance dollars is also limited.

The extent to which host country contracts are used is significant despite the change of policy which allows AID Missions to use more direct contracts. For example, recent information developed by AID management shows that host country contracts in effect at the beginning of fiscal year 1983 totaled \$2.3 billion. Also, the amount of local currency generated from AID assistance dollars that is managed and controlled by host countries is significant. For example, an IG audit report issued in January 1981 showed that AID expenditure for active projects in the Sahel totaled \$146 million of which \$41.7 million or 28 percent was local currency costs. The report further said that this percentage was low because some local currency purchases were not recorded.

The need to assure that host countries have the capability to negotiate, award and implement AID-financed contracts and manage local currency purchased with AID assistance dollars is important. However, the need to provide formal or informal training in the form of technical assistance, as the policy states, is not being met where and when needed. This training is especially needed in Africa.

HOST COUNTRY CONTRACTING - THE PROCEDURES

Host country contracting rules and guidance are intricate and require extensive experience to be appropriately adhered to and applied. They are intricate because they are derived from U.S. Government statutes and procurement regulations which have emerged after years of experience and are fundamental to AID's stewardship of U.S. Government funds. The rules must be followed unless waived by an authorized AID representative on the basis of a written justification. The guidance is based on sound procurement procedures and waivers

are not necessary if procedures other than those recommended by AID are used. The rules cover such subjects as competition, advertising and nationality and source. The guidance covers such subjects as choice of type of contract and contractor selection. Indicative of the complexity of the rules and guidance are the following excerpts from the country contracting handbook.

The rule covering nationality states:

"c. A corporation or partnership organized under the laws of a country or area included in the authorized geographic code, except that, with respect only to suppliers of services, any such corporation or partnership organized under the laws of a country other than the United States must be more than 50% beneficially owned by citizens of countries included in the authorized geographic code. See section 2.62.2 for tests of beneficial ownership;"

Guidance under the type of contract to select states:

"Time-rate contracts are useful when services are tied to schedules whose duration is uncertain, but the type of skill(s) is known. They usually combine aspects of both fixed price and cost-reimbursement type contracts. Salaries, overhead, and profit are combined into a fixed rate per time unit (day, week, or month). Other direct costs, such as travel and allowances, are usually paid on a cost-reimbursement basis although they may also be included in the fixed rate. The contractor is paid the fixed rate for the days actually worked, plus the related cost-reimbursement items, up to the maximum contract amount."

This type of contract is characterized in the guidance section of the handbook as having a major advantage because of "the relative ease of administering them (time-rate contracts) as compared to cost-reimbursement contracts." As discussed later, an IG report has shown that the use of this type of contract by a host country contracting agency has resulted in windfall profits to the contractor.

Chapter 4 of the Country Contracting handbook discusses cost principles applicable to AID-Financed host country contracts. It is important to point out that AID is only recommending the cost principles set forth in the handbook be used in the preparation, evaluation and administration of host country contracts. Although, the handbook makes it clear that "there are, however, certain elements of cost, discussed in this chapter, which AID will not fund."

The allowability, allocability and reasonableness of costs charged to AID-financed contracts is a complex set of cost principles developed over many years of government contracting. The complexity is somewhat compounded when the host country contracting agency must also assure that the contractor maintains books and records adequate to demonstrate the allowability and allocability of costs. To expect this level of sophistication from host countries in West Africa which have been shown not to have the basic accounting and financial control technical skills necessary to protect AID funds transferred to them (see IG report on accounting in the Sahel) is expecting too much unless adequate technical assistance to teach them how is also provided.

RECURRING DEFICIENCIES IN HOST COUNTRY CONTRACTING AND ACCOUNTING FOR THE USE OF AID FUNDS AS REPORTED BY THE IG

Since 1978, the IG has issued numerous reports which have described the problems encountered in host country contracting and in host country accounting for the use of AID funds. The primary cause of these problems as identified by the IG is the insufficient experience and competence of host country personnel to (a) adequately implement and administer the intricate AID contracting requirements, and (b) maintain necessary financial controls which provide reasonable assurance that AID funds are used effectively and for the purpose provided. The impact of these deficiencies on the development process is failed projects and wasted money. The

deficiencies are most prevalent in Africa. Highlights of information from a number of IG reports addressing these deficiencies are discussed below.

Implementation of AID's Policy on Preference of Mode of Contracting for Bilateral Assistance Projects - Unnumbered Report Dated 9/19/78

Although this first review of the host country contracting policy was limited, it identified problems which have plagued the policy since its first application. The report which was distributed to top AID management officials stated "The conclusion emerging is that AID has a policy on contracting which may be sound on a theoretical basis but seriously faulty on a practical real world basis." The report itemized a number of specific deficiencies but attributed the primary cause of the problems to:

*** Host country procurement personnel do not, as a rule, have the capability to perform the task of contracting under the policy."

AID management agreed that the policy was not working well but questioned the practicality of evaluating the contracting capabilities or organizations in each host country receiving assistance and developing a plan for formal on the job training. Agency managers believed such training could be too costly to implement and informed the IG that there was no assurance that the personnel trained would remain in position or that the host country agency currently implementing AID assistance projects would be the same agencies implementing AID projects in the future. They did not, however, offer or suggest any alternative methods of providing technical assistance to host countries even though the policy states that in those cases where the host country does not have adequate contracting capability formal or informal technical assistance should be provided. On the basis of this limited report, the IG started a world-wide audit on the application of host country contracting.

Review Of The Application of Host Country Contracting Mode -
#79-81 Dated 5/18/79

This world-wide audit was directed at assessing the effectiveness of host country contracting as a preferred way for AID and host countries to contract in support of AID's foreign assistance loans and grants. Audit work was done in 10 countries which had a total of 394 host country contracts valued at \$594.8 million. Of that number, 104 contracts valued at \$396.2 million were audited. In substance, the problems identified in the IG's earlier report were confirmed and further documented. The report showed that implementation of host country contracting has had an adverse effect on project implementation and control. Projects have been delayed and costs have increased. The report stated that the extent of the negative impact on project implementation is directly related to the host countries contracting capability.

The report did not, however, recommend a solution to what was identified as the major cause of poor host country contracting. That is, the inability of host country contracting personnel to negotiate, award, administer, evaluate and audit complex contracts consistent with AID requirements. The need for training was not recommended because, according to the IG report, (1) the host country contracting volume is so small there is not sufficient opportunity to develop useful contracting capability, and (2) personnel changes in the Borrower organization risk illimitation of the experience gained. Since that statement, however, the volume of host country contracts has grown and in some countries there are specific contracting agencies where the technical need is concentrated.

The report made a number of constructive recommendations most of which were directed at procedural changes to improve AID oversight and control and to clarify Mission

responsibility concerning the use of host country contracting. The recommendations have been acted upon but the problems still persist.

Louis L. Mitchell's Host Country Contract Under AID Loan 492-T-035 - #2-497-79-6 Dated 8/6/79

A U.S. Mission requested the audit staff to make an analysis of the propriety of cost incurred under a host country technical services contract with a U.S. firm. The auditors found that 34 percent of the total contract cost reviewed were "***either questionable or outright refundable***." The Mission was provided with a list of thirteen recommendations most of which required action by the host government in its borrower role. In substance, the host government needed to improve its capability to act in accordance with the terms and conditions of the AID loan and the provisions of the specific host country contract. The host government was paying for ineligible or unsupported costs because they did not have adequate capability to assure that the intricate AID requirements under the host country contracting method were enforced.

Problems Arising From An AID-Financed Host Country Contract Between The Government Of Liberia And Priarie View A&M University - #80-89 Dated 7/29/80

No substantive progress has been made by the University in implementing the objectives of this Vocational Training Project. A host country contract for \$5.4 million was signed on April 4, 1979 but project implementation had been delayed for more than a year because of errors, omissions and internal inconsistencies in the contract. The Mission insisted that the contract be amended to meet AID's requirements for host country contracts. It took 7-months for the amendment to be negotiated. Even after the amendment was signed contract disputes continued and project implementation was adversely affected. At the time of the audit the University submitted six invoices requesting reimbursement of \$475,594. Of that amount \$95,074 or 20

percent was questioned. For example, the University requested reimbursement for used books covering topics that had nothing to do with the training objectives of the project. Moreover, the used books were first discovered by the audit team in a warehouse in unopened crates. Other problems discussed in the report were:

- Inadequate contract staffing
- A required project plan was not prepared
- Progress reports did not discuss progress
- Logistical support was deficient
- Cash advances were excessive

The report stated that host country contracting may not be appropriate for Liberia, and implied that host country contracting personnel did not have sufficient competency. The report also stated that there was no evidence the U.S. Mission made the required assessment of the host country ability to award and administer contracts consistent with AID requirements.

Non-Competitive Procurement Waiver For Charles R. Drew Post Graduate Medical School - # 81-5 Dated 10/17/80

This review was requested by the Administrator. It was done to determine if AID rules and regulations were followed and whether improprieties were involved in the contract award. The report pointed out that AID's procurement procedures requiring competition were not followed in the selection and award of a host country contract. The U.S. Mission made an assessment of the host countries ability to enter into a host country contract and approved the use of that method of contracting. The host country activity concerned with the contract agreed to and approved of the competitive procurement practices required by AID. Despite the countries awareness of the need for competitive procurement, it was the Mission with assistance from AID/Washington that developed a prospective bidders list. Because of a number of administrative errors and failed communication, however, a list of bidders was never provided

to the host country. As a result, the host country negotiated a contract without competitive bidding and the AID administrator was requested to retroactively approve a waiver of AID's competitive procurement requirement. The report recommended that steps be taken to assure that Missions comply with AID's competitive procurement regulations under host country contracts.

The Nonformal Education For Women Project In Morroco:
Problems In A Host Country Contract # 0-608-82-47 Dated
2/22/82

On June 15, 1978, a \$4.3 million project was authorized to strengthen the infrastructure of the PROMOTION FEMININE PROGRAM of the Moroccan Ministry of Youth and Sports to enable the Ministry to undertake a program to foster new training and employment opportunities for women throughout Morocco. At the time of the audit \$2.3 million had been obligated to implement this AID-financed host country contract. Although contract expenditures were in line with original forecasts, most of the planned work had not been accomplished and was not being addressed. This was caused, in part, by the failure of the Mission to assure adequate host country contract administration. According to the report, the "*** primary contract to implement the project did not adequately reflect the project documentation. Finally, the work actually being done by the contractor differed from that specified in the contract." This was a host country contract that failed and as a result was terminated after the expenditure of significant assistance dollars. The cause as stated in the report was inadequate host country administration.

Poor Contractor Performance Has Hindered The Construction Of
Lesotho's Southern Perimeter Road - #3-362-83-11 Dated 3/18/83

The United States was to provide \$26 million in grant funds to up grade 155.2 kilometers of paved and unpaved roads in Lesotho. The host country was to provide \$5.5 million. The design and construction work was to be accomplished under

a host country contract, and the road was to be fully constructed by May 1982. The design portion of the contract caused numerous problems that for one reason or another were not easily resolved. Also, the report stated that there were numerous allegations of fraud, theft and procurement violations. At the time of the audit (November 1982) five months after construction was to be completed, no one could estimate how much of the road would be complete before available funds were exhausted. Despite the allegations of civil and criminal wrongs, the report stated that due to the nature and the wording of the host country contract "AID may not have legal recourse criminally or civilly against the (contractor) for violations committed by their employees on this project."

Poor Contracting Has Resulted In Windfall Profits To Louis Berger International Inc. And Its Technicians - #3-623-83-12
Dated 3/25/83

During 1981, three host country contracts, to implement projects in Africa, were awarded to Louis Berger International Inc. A detailed audit of the circumstances concerning the award of these contracts showed that AID paid more for the services received than it should have. This condition was attributed to poor host country ability to negotiate contracts, select contract type and use appropriate contract clauses. The report estimated that it cost AID \$2 million more than it should have cost for the contract services received. According to the report, the contracts provided the contractor and contract technicians with opportunities to make windfall profits at the expense of the U.S. Government because the two host governments involved lacked:

- the technical capability to negotiate a fair and reasonable contract,
- the knowledge to determine reasonable time rates for the services required,

- the experience necessary to evaluate financial risks involved with time rate contracts,
- effective AID support during the contracting process.

The report also stated that the procedures for analyzing and ranking contractor technical proposals were poorly conceived and that the contracts contained clauses unfavorable to the government. The report made a number of constructive recommendations including the need to develop and issue guidelines which would help AID Missions develop sound guidelines with host governments for evaluating contractor technical proposals. Neither AID management or the audit report addressed a recommendation to the underlying cause of the poor contracting conditions. That is, as stated in the report, "the host governments lacked the technical capability ***." According to AID's host country contracting policy and as stated before if the host country lacks the technical capability we should provide it to them in the form of formal or informal technical assistance. This major aspect of the host country contracting policy, despite 5-years of audit reports attributing host country contracting problems to the insufficient experience and competence of host country contracting personnel, is still not being addressed in any concerted effort.

IG Audit Continue To Show That Host Country Contracting Procedures Waste AID Funds - # 3-000-83-13 Dated 3/30/83

This report pulled together some of the similar findings reported on the host country contracting method from prior IG reports. The report was informational, did not make recommendations but was distributed to senior AID managers. The report highlighted the following type of host country contracting deficiencies:

- Host government contractor selection procedures are weak.
- Inappropriate types of contracts are wasting AID funds.

- Host country contracts limit AID's legal right of recovery.
- AID's contracting assistance to host governments is ineffective.

Positive Actions Taken by AID to Improve Host Country Contracting

The Administrator's Task Force on Payment/Verification concentrated its efforts on problems associated with host country contracting. As a result of their effort, the Administrator approved a number of requirements in 1983 which should improve host country contracting and help identify those countries that do not have the necessary expertise to use the host country contract method. Included among the requirements approved by the Administrator was the following:

- o Where host country contracting is proposed as a means of implementation, the required assessments will set forth a realistic appraisal of the prospective host country contracting agency's ability to (i) advertise, award, and negotiate contracts, (ii) monitor contract implementation, (iii) examine invoices and (iv) audit contractor records and reports.

Information obtained by AID from host country contractors showed that the majority of contractors support the concept of host country contracting, but recognize that problems exist. One of the problems being that host country staff expertise was too poor. Here are a few of the statements received by AID from contractors:

*** The adequacy of host country contracts depends upon the discipline of the government people in that country, varying with different countries ***"

*** host country contracts, however, can produce better projects because the host country perceives the contractor as working for them ***"

The requirement discussed above and other requirements approved by the Administrator should do much toward lessening

the problems in host country contracting, but more can be done in terms of implementing one of the primary purposes of the host country contracting policy. AID's host country contracting policy had the foresight to provide for the use of technical assistance to those host countries that did not appear, in AID's judgment, to possess the sufficiency and competency to manage the contracting process on their own. Little has been done to provide this assistance in any formal way. The technical abilities needed to select contractors, analyze technical proposals, evaluate contractor proposed cost, administer contract terms, evaluate and monitor contract progress and perform or arrange for the performance of audits of contract costs all relate to the broad area of public administration. In this regard, the financial and accounting practices of host countries using AID funds has also been questioned by the IG in numerous reports. As a direct result of those reports, training is being provided to overcome this administrative weakness which was having a negative impact on AID's development efforts. (This training will be discussed later in this report).

The following IG report contains findings that are illustrative of the types of financial management and accounting problems found and reported on by the IG in numerous reports of project audits in the Sahel.

Problems In Host Country Accounting For Utilization Of AID Funds In The Sahel - #81-35 Dated 1/29/81

This major report evaluated host country financial management practices for accounting, controlling and reporting on the use of substantial sums of AID-financed local currency funds. The report included information from audits of 13 projects in five of the eight Sahelian countries. The findings in the report are illustrative of findings previously and subsequently reported on by the IG. An abbreviated list of reports containing financial management problems is shown at appendix I.

The report concluded by stating:

"The projects AID is financing in the SAHEL are receiving substantial sums of local currency purchased with U.S. dollars. Through December 31, 1979, expenditures under active projects totaled \$146.4 million of which more than \$41.7 million represented local currency expenditures. The government entities' financial management practices for controlling, accounting and reporting on the use of these AID-financed local currency funds is seriously deficient. These deficiencies are consequently resulting in an indeterminate amount of the funds being diverted for non-project purposes."

"We believe that AID and other donors must give priority attention to upgrading the governments' accounting capabilities. A comprehensive training program must be provided for financial personnel if the governments capabilities are to be upgraded at all levels of government."

Interest in and concern over the matters discussed in this IG audit report were expressed by the Congress, the Office of Management and Budget, and the Media. In responding to the concerns of OMB, the then Assistant Administrator for AID's African Bureau stated that "*** we must also recognize that the identified deficiencies (as reported by the IG) are symptomatic of the low levels of development in the Sahel, particularly with regard to medium- and high-level manpower availability, institutional capacity and program management capability. Therefore, it is necessary to develop medium- and long-term responses which address these aspects of the problem."

Some of the actions taken in response to the IG's recommendations were:

- Stopping disbursements where accounting is unsatisfactory.
- Issuing bills of collection to recover funds that were misused.
- Using a financial manager for all new projects which have a large local currency component.

- Certifying that Sahelian governments have the capacity to account for funds on a project-by-project basis before disbursing funds.
- Developing financial management systems for Sahelian managers, and training them in their use.

With regard to the last of the actions listed above, AID management officials said they are:

"developing training courses in financial management for Sahelian participants *** and developing a Sahel Regional Financial Program Management Project to provide technical assistance and training in this discipline beginning in FY 1982."

This training program will be discussed later as a potential model for developing a similar program in the area of contract management and administration.

OFFICIAL VIEWS AND CURRENT TRAINING ACTIVITIES

Representatives from AID, the World Bank, The United Nations (UN) and the General Accounting Office (GAO), have agreed that additional efforts are needed by the developing countries and donor organizations to improve administration and financial management. These officials pointed out in a 1979 symposium, that for development to be successful over the long term, training in both these areas should be given a high priority. Views on training and the current training activities of AID, the World Bank, the UN and GAO are discussed below.

Views On Administrative And Financial Training In Developing Countries

In September 1979, the GAO issued a report entitled "TRAINING AND OTHER EFFORTS NEEDED TO IMPROVE FINANCIAL MANAGEMENT IN THE THIRD WORLD." While the report concentrated on the financial training needs of developing countries, it also commented on the overall need to improve administrative capabilities of developing countries. GAO said that effective financial management "*** is essential

because anything less dissipates available resources and thwarts development." The report was somewhat unique in that it included the results of a Comptroller General symposium on financial management and public administration training in developing countries. The panel for the symposium consisted of experts from academia, business, government and international organizations. The then Deputy Administrator of AID was one of the panelists. Some of the issues discussed at the symposium on which a consensus was reached are:

- Public administration and financial management are accorded a very low priority by most third world governments in terms of reform and training.
- AID and other donor organizations have cut back training programs in administration.
- There is a high priority need for training in the administration and financial management area if development is to have a successful and long lasting impact.
- Training should be provided at regional or national locations rather than in the technologically advanced countries.

In commenting on the report, AID generally agreed with the principle findings and conclusions, and said "*** In assessing the skills deficiencies of LDC's, the area of public administration and financial management cannot be ignored, and it may be true that in recent years the U.S. as well as other donors have tended to do so. However, there is renewed and increasing concern in this area, both by AID and by the International donor community."

Some of these concerns were transformed into specific training activities.

AID Training Efforts

Training is an essential part of AID's development strategy and has been emphasized for many years. The training of scientists, technicians, administrators and managers, not only complements other forms of assistance but

continues to have a development impact long after other assistance inputs have been expended. Teaching how to do it rather than doing it, is a philosophy that has guided the Agency for over three decades. AID has a number of initiatives relating to training in the area of public administration. Participant training and technical assistance projects are two such initiatives. In addition, ad hoc training by AID specialists is also provided to host country personnel on an as requested and available basis. A brief description of these training initiatives is discussed below:

1. Participant Training - Participant training refers to individuals sponsored by AID for training in the U.S. or third countries. Its purposes are to develop host country staff capabilities for AID-assisted projects, strengthen key development institutions, and establish local training capacities. The number of participant trainees receiving training in fiscal year 1983 through July 19, 1983 in the area of public administration are detailed below:

<u>MAJOR COURSE OF STUDY</u>	<u>NUMBER OF PARTICIPANTS</u>
Public Administration	391
Social Sciences & Humanities.	15
Business & Commerce	115
Computer Science.	3
Economics	139
Accounting.	59
Hotel & Restaurant Administration	8
International Relations	16
Political Science or Government	17
Tax Systems	66
Insurance and Banking	9
Statistics.	70
Education	8
Miscellaneous (a)	40
Total	<u>956</u>

Note:(a) Miscellaneous includes such training as demography, photogrammetry, and labor relations.

2. Project Assistance - One of the more significant Public Administration type training projects being implemented is the five million dollar three-year project entitled "Sahel Regional Financial Management Project." The purposes of the project as described in the project paper are (i) design appropriate accounting and financial management systems, (ii) develop and disseminate suitable training materials and methods, (iii) train cooperating country personnel, (iv) assist in the installation of the systems, and facilitate the utilization of the accounting data in improved financial and program decision-making wherever possible. The need for this type of training which will increase as projects become more complex was identified in numerous IG reports.

3. Ad-Hoc Training - AID contract management officials have, on an as requested basis, provided brief training to AID project officials and host country officials. According to the AID specialist providing the training, the courses only lasted 2 or 3 days and were very basic. The subject matter, however, did deal with contracting concepts and methodology. For example, Sri Lanka which has a GSA type contracting agency, requested and received limited training in contract concepts.

In addition, the Office of Contract Management sponsors a course entitled "Contracting for Non-Procurement Personnel." This course is provided primarily to AID employees and local nationals employed by AID. Also, AID sponsors a course given by a U.S. contractor on Project Implementation. This course contains some instruction on contracting concepts but it too is limited to AID employees. The AID official responsible for this training believed that training in the area of contracting would be very beneficial, but expressed concern with how AID would assure that the host country personnel trained would be available to work in the contracting area. This risk, of course, exists in every training program

including the Sahel Regional Financial Management Project currently being implemented.

World Bank Training Efforts

The World Bank's Technical assistance unit for West Africa has taken a number of steps to improve the administrative capabilities of West African countries. While the thrust of their effort is in the financial management area, they have also started to address the need to provide training in other areas of public administration. For example, they are providing 3-man years of effort for a legal advisor on contracting to a West African country. On another project, they are providing a 12 man-year effort to provide the Cameroon with technical assistance in the area of contracting. The training on this latter project is being provided direct to host country personnel involved with contracting and assigned to the central contracting agency of the host country. The Bank's preferred method of training, however, is to train a cadre of host country trainers. The Bank, according to an official in its technical assistance unit, would welcome a cooperative administrative training effort with other donor participation, and strongly believes in the need for training in the contracting area.

UN Training Efforts

The UN has a number of projects directed toward improving the financial management and auditing capabilities of developing countries. In this regard, the UN has taken the view that the successful implementation of development strategy will entail a significant strengthening of public administration and finance systems in developing countries. A UN report based on a meeting of experts in public administration and finance included such statements as:

"Accounting and auditing systems which support development planning and budgeting are essential for the effective utilization of development resources."

"Setting up a network of training institutions in the developing countries could be a valuable way of strengthening and further professionalizing the training systems."

"The training of trainers needs special emphasis. Trainers are not only needed to strengthen the capabilities of training institutions but also to strengthen and widen the scope of in-service training programs in the interest of national development."

"There are now institutions designed for the improvement of public administration in practically all countries of the world. *** Time is ripe now to strengthen relations among these institutions, both national and international in order to forge new modalities for concerted action to improve public administration and finance for development."

The UN also publishes and provides to member nations a number of publications in various languages which provide technical information on administrative areas. One such publication provides information on supply management including procurement planning and purchasing.

GAO Training Efforts

The GAO has been a strong advocate for providing training to less developed countries in the areas of administration and auditing. As an active member in the International Organization of Supreme Audit Institutions they have over 200 visitors a year resulting in an exchange of information on financial management and auditing techniques. In addition, the GAO Fellowship program is a three month course of training in management auditing. The training is given in the United States. While GAO dedicates staff resources and classrooms to the training, funding comes from AID, other donors, and participating countries. The current program consists of 17 students as follows:

<u>Country</u>	<u>Funding</u>
Bangladesh	UNDP
Cyprus	UNDP
Burma	AID
Egypt	AID
Malawi	AID
Pakistan	AID
Peru	AID
Sri Lanka	AID
Ethopia	World Bank
Hong Kong	Own Country
Kenya	Own Country
Malaysia	Own Country
Saudi Arabia	Own Country
Tanzania	Own Country
Indonesia	Harvard Institute
Nepal	Not Shown
Nigeria	Not Shown

In addition, GAO officials said that the Canadian Comprehensive Audit Foundation which operates under the Auditor General of Canada but is considered a Public Corporation holds a number of training activities in West Africa.

CONCLUSIONS AND RECOMMENDATION

Project implementation problems are caused by many different factors. Poor project design, overambitious design, lack of host country support and inadequate project management are just some of the causes of project failures. AID has taken a number of positive actions to improve project management and host country contracting. Another cause of project implementation problems associated with host country contracts stems from the insufficient capability and competence of host country personnel to enter into and administer AID-financed contracts. This problem has been repeatedly pointed out in IG audit reports.

Host country contracting is an important development tool because it allows countries to participate more directly in the administration of the development process. These administrative abilities are necessary if developing countries are to sustain progress. AID's host country contracting policy is primarily based on this premise, and strongly states that if in AID's judgment the country does not have the capability to administer AID-financed contracts they should be taught how. Nevertheless, AID has not made any concerted effort to train host country personnel in the area of contracting.

Training in the area of auditing and financial management is being given by AID and other bi-lateral and multi-lateral donors. These efforts are commendable. Particularly, the large "Sahel Financial Management Project" which is being provided to an area that is in dire need of training. Contracting expertise is also needed in this area of the world if projects implemented under the host country contracting methodology are to be improved. To satisfy this need and promote good contracting practices appropriate to the host country, additional training efforts in the area of contracting are needed. Training efforts given in this area should be based on the importance of sound procurement practices rather than being based on AID contracting requirements or guidance. Moreover, the training should be provided in the host country or region to personnel that could serve as a cadre to train others. Accordingly, the following alternatives to training should be considered:

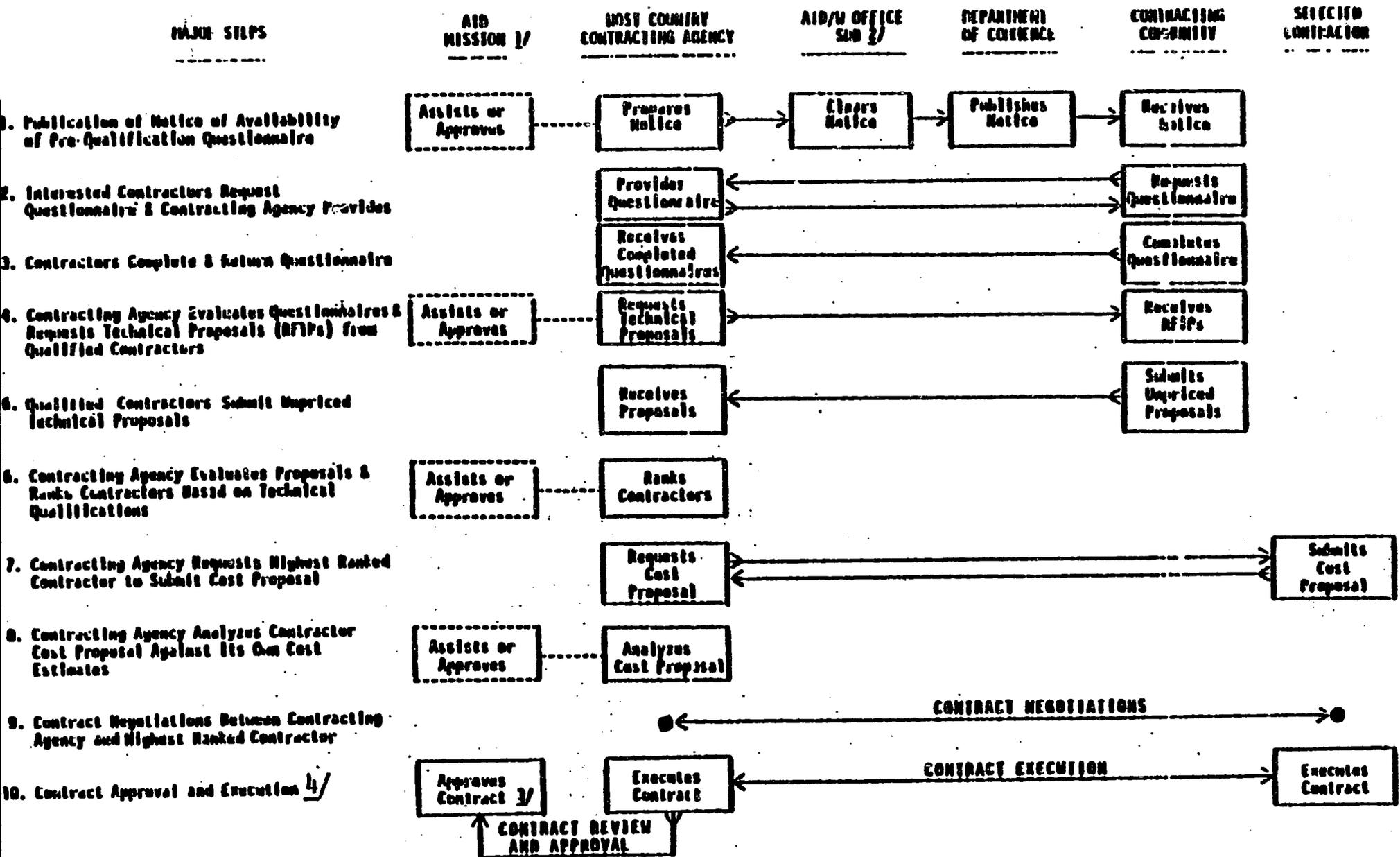
- Expanding the current Sahel Financial Management Project to include training in contracting
- Designing a project which provides for training in contracting and related subjects
- Participating with other donors in the funding of training in contracting techniques.

IG REPORTS
DEALING WITH ACCOUNTING PROBLEMS
IN WEST AFRICA

<u>Audit Report Number</u>	<u>Title</u>	<u>Date of Report</u>
83-3	The Operation Mils Mopti Project in Mali was Poorly Designed and Implemented	5-3-83
83-2	The Niamey Department Development Project in Niger Needs More Management Attention	2-10-83
83-1	The Administrative and Financial Practices of the Safgrad Project Need to be Improved	11-16-82
82-1	The Operation Haute Vallee project in Mali is experiencing serious problems	9-20-82
81-44	Review of Selected A.I.D.-Financed Activities in Upper Volta	2-13-81
81-50	Memorandum on Review of the Senegal Rural Health Services Development Project and the Cereals Production Projects	3-6-81
81-52	Improvements Must Be Made in the Sahel Regional Development Program	3-10-81
81-61	Memorandum on Audit of Local Currency Expenditures - Food Crop Protection & Integrated Pest Management Projects in the Gambia	3-27-81
81-35	Problems in Host Country Accounting for Utilization of A.I.D. Funds in the Sahel	1-29-81
81-22	Memorandum on Audit of Local Currency Expenditures - OMVS Agronomic Research Project	12-15-80
81-6	An Assessment of Africare's Activities	10-14-80
80-75	Improvements Are Needed in A.I.D.'s Assistance Program in Cape Verde	6-25-80
80-67	Problems in Implementing A.I.D.'s Livestock Sector Projects' in Mali	6-6-80

**USING PRE-QUALIFICATION PROCEDURE
FOR TECHNICAL AND PROFESSIONAL SERVICES**

ILLUSTRATIVE



Notes:

1. Dotted squares above denote optional AID Mission participation in steps indicated, depending upon experience and capabilities of the host country Contracting Agency. Mission involvement may range from providing advice and assistance to the Contracting Agency, to requiring prior review and approval of specific steps (e.g., adequacy of questionnaires; evaluation of technical proposals; etc.).
2. Office of Small & Disadvantaged Business Utilization, AID Washington.
3. AID approval of all contracts over \$100,000 is mandatory. Missions may also require approval of contracts under this amount where considered necessary.
4. Total estimated elapsed time is 265 days