Auditor General

PROBLEMS ARISING FROM AN A.I.D.-FINANCED
HOST-COUNTRY CONTRACT BETWEEN
THE GOVERNMENT OF LIBERIA AND PRAIRIE VIEW A&M UNIVERSITY

USAID/Liberia
Vocational Training Project
AID Grant 669-0131

No substantive progress has been made by the contractor in implementing the objectives of the Vocational Training Project. Though more than a year has elapsed since the host-country contract was signed, we found that:

-- disputes between the contractor and Government of Liberia have still not been resolved, and

-- the contractor has not provided the technical assistance needed to implement the project.

Thus, if project objectives are to be achieved, AID needs to encourage a quick settlement of all disputes that have led to inadequate contractor performance.

Audit Report Number 80-89

Issue Date July 29, 1980

Area Auditor General, Washington
Agency for International Development
Washington, D.C. 20523

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EXECUTIVE SUMMARY

Introduction

In 1975 the Government of Liberia requested AID assistance to upgrade the Booker Washington Institute. The Institute has operated, since the Government of Liberia assumed control in 1951, as a secondary vocational school. In fact, it has been and continues to be the only government-financed school specifically designed to provide skilled workers at the secondary level. However, due to inadequate policy guidance, professional supervision and financial support, Booker Washington deteriorated to such an extent that it had to be closed in 1974. Since reopening, the school has received increased government support but lacks qualified staff, updated facilities, relevant curricula and good administration. The result is that the present school program is producing employable graduates, who possess skill levels far below what is needed to meet critical skill manpower requirements in Liberia.

On August 17, 1978, AID provided the Government of Liberia with a $5.9 million grant to fund a vocational training project. The purpose of the project is to restructure the secondary vocational program at the Booker Washington Institute in order to produce employable graduates for identified middle-level manpower skill requirements.

The AID grant is to be disbursed over a five-year period to finance a host government technical services contract between the Government of Liberia and Prairie View A&M University located in Prairie View, Texas. This five-year contract was signed on April 4, 1979 at an estimated cost of $5.4 million.

Purpose and Scope

This review was undertaken at the request of the Director, USAID/Liberia to determine whether: (1) Prairie View is providing the necessary technical assistance required to achieve project goals, and (2) AID funds are being utilized in accordance with applicable AID regulations and provisions of the contract. The review included an examination of Prairie View's records in Liberia and Prairie View, Texas, as well as site visits and discussions with Government of Liberia and AID officials.

Unresolved Disputes Caused Delays In Project Implementation

Implementation of the project has been delayed by more than a year because of contractual problems. Much of this delay arises from inadvertent errors, omissions and internal inconsistencies in the original contract. USAID/Liberia insisted, therefore, that the contract be amended to meet AID's requirement for AID-funded host government contracts. It took over seven months, however, to negotiate this amendment. Yet, even with the signing of this amendment, contract disputes continue to affect project implementation adversely. These disputes concern staffing of the contract team in Liberia,

logistical backstoping support and the amount of the cash advance. Thus, until these disputes are resolved, implementation will continue to be affected. These problems, in our view, suggest that host country contracting may not be appropriate for Liberia. There is no evidence, for example, that USAID/ Liberia performed the required assessment of the Government's ability to select, award and administer contracts (pages 3 - 5).

Contractor's Performance Needs Improvement

Prairie View has not provided the technical assistance needed to implement the project as required in its scope of work. For example, though more than a year has elapsed since the contract was signed, four of the eight field positions are still vacant; procurement of urgently needed commodities has not been made; the detailed Life of Project Work Plan, which is needed for project implementation, monitoring and evaluation has not been developed; and Prairie View backstoping support of its field team has been inadequate. Yet, despite repeated demands by AID and the Government of Liberia, little has been done to improve the situation. Therefore, in our view, USAID/ Liberia, in conjunction with the Government of Liberia, needs to assess whether Prairie View has the capability to achieve the purposes of the contract (pages 6-11).

Financial Matters Need To Be Resolved

As of March 31, 1980, Prairie View had submitted six invoices for reimbursement of costs totaling $475,590. Of these claimed costs, the Government of Liberia has disallowed $78,730. Moreover, in addition to the Government's disallowances, we have questioned $16,344. Those costs questioned by us consist of $11,043 in commodities, mainly books, which do not comport with project needs. The books, covered a wide-range of subjects, varying from computer language to art and music. We also questioned $5,301 relating to overhead. The overhead rate relating to on-campus indirect costs, for the first year, in our judgment, should be 40 percent, not 60 percent which was negotiated in the agreement. The $5,301 represents the difference between these two rates. Appropriate action should accordingly be taken by USAID/ Liberia and the Government of Liberia to resolve these financial matters (pages 12-15).

Summary of Management Comments

USAID/Liberia indicated the draft report gives a generally clear picture of present project problems. It suggested, however, that the audit report include a suggestion regarding the level of the AID cash advance that should be provided to Prairie View. This suggestion was incorporated in the final report. Accordingly, we have recommended that the cash advance be reduced from $350,000 to $120,000 until such time that Prairie View submits a cash flow analysis justifying a larger amount.

Conclusions and Recommendations

Little substantive progress has been made in implementing the project. This lack of progress is due, in large part, to contractual disputes between the Government of Liberia and Prairie View. Until these disputes are resolved, additional delays in project implementation can be anticipated. Accordingly, we recommend that the USAID/Liberia:

- -- reassess the Government of Liberia's capability to select, award and administer host country contracts before future contracts of this type are approved.
- -- in coordination with the Government of Liberia's Ministry of Education, reassess the project in terms of the current contractual requirements and determine the continuing viability of Prairie View to accomplish the purpose of the contract.
- -- reduce the level of the AID cash advance to $120,000 until such time that Prairie View submits a cash flow analysis justifying its need for a larger amount.
- -- take appropriate action to offset the $11,043 questioned costs for AID-financed commodities from the next voucher submitted by the contractor.
- -- initiate appropriate action to ensure that the Ministry of Education and Prairie View resolve the disallowance for project proposal recovery costs charged to the contract.
- -- inform the Minister of Education of the applicable on-campus overhead rate for the 2-year period ended August 31, 1980, so that the contract can be amended.

BACKGROUND

Studies of manpower needs in Liberia have consistently cited the critical shortage of blue collar workers who can fill middle- and lower-level manpower needs. At the same time there is a surplus of unskilled and semi-skilled workers, with large-scale employment existing among these categories. As a result of this narrow manpower base and an imbalanced educational system, Liberia's long dependence upon expensive manpower imports is growing more acute.

In 1975 the Government of Liberia requested AID assistance to upgrade the Booker Washington Institute. The Institute has operated throughout its history as a secondary vocational school. In fact, it has been and continues to be the only government-financed school specifically designed to provide skilled workers at the secondary level. However, due to inadequate policy guidance, professional supervision and financial support, Booker Washington deteriorated to such an extent that it had to be closed in 1974. Since reopening, the school has received increased government support but lacks qualified staff, updated facilities, relevant curricula and good administration. The result is that the present school program is producing graduates that are employable but with a skill level that is far below that needed to meet the critical skill level manpower requirements in Liberia.

On August 17, 1978, AID provided the Government of Liberia with a $5.9 million grant to fund the Vocational Training Project (No. 669-0131). The purpose of the project is to restructure the secondary vocational program at Booker Washington Institute to produce employable graduates for identified middle-level manpower skill requirements.

This purpose is to be achieved by upgrading the staff, curriculum, facilities, and supporting systems at the school. Curriculum will be redesigned from the present four-year to a three-year program covering four trade areas--mechanical, electrical, building construction, and agriculture. The intent is to restructure and expand the vocational program so that it will have the capability of producing 500 graduates annually for the work force.

The estimated cost of the project is $13.8 million including AID's contribution of $5.9 million. The Government of Liberia's contribution is $7.9 million. The Government's contribution consists of $6.9 million for costs of personnel services and operational costs and $1.0 million for equipment and construction costs of staff houses and dormitories.

The AID grant is to be disbursed over a five-year period to finance a technical services contract between the Government of Liberia and Prairie View A&M University located in Prairie View, Texas. This five-year cost reimbursable contract, dated April 4, 1979, is estimated to cost $5.4 million. The remaining $0.5 million of AID's contribution will be used for other contingency costs required to carry out the project.

Under the terms of the AID-financed contract, Prairie View A&M is to provide 336 work-months of long-term field specialists and 50 work-months of short-

term field specialists. In addition to field staff, the contractor is to provide home-office support to accomplish all of the objectives of the project. Contract services include technical assistance activities for the design of curriculum, for design and assistance in the implementation of organizational and administrative procedures, commodity procurement and participant training. The project completion date is December 31, 1983.

In April 1980, during our review, political unrest in Liberia resulted in a change of that country's government. We do not know to what extent this change may affect project implementation or host government support.

Purpose and Scope

At the request of the Director, USAID/Liberia, we have reviewed AID's Vocational Training Project from its inception on August 17, 1978 through May 31, 1980. The purposes of our review were to determine whether Prairie View is providing the necessary technical assistance required to achieve project goals and to determine whether AID funds are being utilized in accordance with AID regulations and provisions of the contract.

The review included an analysis of documents and discussions with appropriate AID officials in Washington and at the contractor's home office in Prairie View, Texas. We examined contract documentation and held discussions with responsible officials of the Liberian Ministry of Education and USAID/Liberia. At the project site in Kakata, Liberia, we observed project activities, reviewed contract implementation and held discussions with school and Prairie View officials. The review was performed between March and May, 1980.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

UNRESOLVED DISPUTES CAUSED SIGNIFICANT DELAYS IN PROJECT IMPLEMENTATION

The Vocational Training Project activities were not initiated as planned because of contractual problems. Slippage in meeting planned target dates, arising from these problems, has already delayed the project by more than one year. These contractual disputes, moreover, still remain unresolved. Until such time that Prairie View and the Government of Liberia have a clear understanding of the contract terms and resolve their disputes, further delays are anticipated. These contractual problems, in our view, suggest that the host country contracting mode may not be appropriate for use in Liberia.

It is AID policy* that the contracting for procurement of AID-financed goods and services required to implement bilateral projects agreements be undertaken by the host country borrower or grantee. The objectives of this policy are to reduce AID staff participation in the contracting process and thereby improve the host countries' contracting capability. Accordingly, in compliance with this policy, USAID/Liberia elected to implement the host country contracting mode whereby the Government of Liberia selects, awards and administers AID-financed contracts.

The Project Paper, AID's basic design and strategy document justifying the Vocational Education Project, stated that the project would be implemented through an AID-funded contract with a U.S. educational institution or firm. The project agreement, signed on August 17, 1978, assumed that the contract selection, award and negotiation process, including the arrival of three long-term members of the contract team in Liberia, could be completed within four months or by December 1978. This four-month period, however, proved to be much too optimistic for completion of the contracting process. The award of the contract to Prairie View A&M University was not completed before April 4, 1979, or eight months after the agreement was signed. Yet, since the award, contract disputes have clouded and delayed the implementation of the project.

On May 8, 1979, USAID/Liberia issued Implementation Letter No. 5 approving award of the contract to Prairie View for financing under the AID grant. However, because of inadvertent errors, omissions and internal inconsistencies in the contract, USAID/Liberia insisted that the contract be amended to meet AID's requirements for AID-funded host-country contracts. The amendment, containing 19 changes, was approved in advance by AID in order to allow the contractor to proceed with contract implementation. The USAID felt that the amendment simply brought the contract back in line with the terms of the original model contract which the Government of Liberia had been using. On May 15, 1979, the Minister of Education issued a notice to proceed to Prairie View and USAID/Liberia advanced $250,000 to cover contract expenses. This notice to proceed required that the amendment to the contract be signed by both parties by July 7, 1979.

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* See AID Policy Determination No. 68 - Host Country Contracting Mode, dated October 27, 1976.

The contractor acknowledged receipt of the proposed amendment and the notice to proceed in June 1979. Prairie View stated that some changes were unacceptable, but it was proceeding with implementation until the amendment had been reviewed by its legal staff.

Even though the amendment was not signed, three members of the contract team arrived in Liberia on July 9, 1979. The deadline for signing the amendment was thus extended 45 days or until October 10, 1979. According to Prairie View, this additional time was needed to complete the legal review required to negotiate the contract amendment. Finally, on November 14, 1979, seven months after the contract was signed, Amendment A was signed by all parties concerned.

Prairie View provided only minimum technical assistance to implement the project during the period of this dispute. Though the Minister of Education encouraged Prairie View to expedite the work, the Minister withheld approval of disbursement of contract funds until the terms of the amended contract were agreed to. When the Minister refused to approve the contractor's vouchers submitted for reimbursement, Prairie View complained that this refusal placed the University in a serious cash flow condition and severely hampered its ability to perform.

Despite the signing of the amendment, contract disputes continued throughout our field audit which was completed in May 1980. These disputes included:

- -- slowness in getting U.S. contract staff on the job in Liberia,
- -- slowness in providing urgently needed technical services including procurement of commodities,
- -- disputes over the amount of the advance payment provided for in the contract to cover ongoing costs,
- -- failure of the contractor to submit timely requests for reimbursement of contract costs, and
- -- the Minister of Education's disallowance of certain claimed costs.

The above problems suggest that host country contracts may not be appropriate for use in Liberia. An Auditor General review (see Audit Report No. 79-71 dated May 18, 1979) on the implementation of the host country contracting mode indicated that AID's interest is sometimes best served by waiving adherence to the policy in those countries where conditions are not suitable. In this regard, the report states:

> "The Agency needs to relax the host country contracting policy. In its present form, the policy encourages AID Missions into frequent use of host country contracting where appropriate capability and conditions do not exist.

"The underlying principle that Borrowers/Grantees should take responsibility for implementation of their projects is a key feature of a development program. However, the application of this policy for professional and technical services still has significant problems... We see a need for more flexibility of contracting choice...and more planned input in project design to effect improved country contracting."

AID procedures (see Handbook 3, Chapter 5c3d) require that Project Papers include evaluations of the ability of the host countries' implementing organizations to select, award and administer contracts. Our review of the Project Paper for the Vocational Training Project disclosed that no such assessment had been made. The absence of this assessment raises the question whether the host country contracting mode should have been used in Liberia.

Conclusions and Recommendations

The serious delays caused by the contract problems indicate that the host country contracting mode may not be appropriate for use in Liberia. No USAID/Liberia assessment, moreover, was made to justify its use. Thus, in our view, the USAID/Liberia needs to reassess whether host country contracts should continue to be used in Liberia. Accordingly, we recommend that:

Recommendation No. 1

USAID/Liberia reassess the Government of Liberia's capability to select, award and administer host country contracts before future contracts of this type are approved.

CONTRACTOR'S PERFORMANCE NEEDS IMPROVEMENT

Prairie View has not provided the technical assistance needed to implement the project as outlined in its scope of work. The school year commenced in March 1980 without a full-contract staff; e.g., four of the eight field positions are still vacant. The failure of Prairie View to provide these required technical skills has delayed procurement of urgently needed project commodities. Prairie View, moreover, has not prepared a detailed Life of Project Work Plan, which is needed for project implementation, monitoring and evaluation. USAID/Liberia officials indicated that the contractor's failure to provide these services, as planned, will result in significant delays to the project implementation schedule.

Contract staffing is inadequate

Prairie View has been slow in providing the needed contract specialists.

Three contract field team members arrived in Liberia on July 9, 1979. This three-person team included the Chief of Party, the Curriculum Coordinator and a Guidance Counsellor. Another two members arrived at the project site in January 1980. These team members were the Building Construction Specialist and the Mechanical Specialist. Yet, as late as January 1980, the Minister of Education again requested Prairie View to expedite the contract work by filling all field staff positions. The Minister expressed his concern that the project had already experienced serious delays and that the specialists in curriculum design were needed by the end of January 1980. The Minister stated that he wanted the project to be initiated at the beginning of the academic year commencing in March 1980.

Three of the eight required field positions were still vacant. Two of these specialists (Agricultural Education and Electrical/Electronics Specialists) were to serve as counterparts to the Liberian Department Heads at Booker Washington Institute. General responsibilities included: testing and evaluating departmental instructional staff; assisting in the development of curricula and instructional materials; identifying equipment needed; developing a system for procurement, installation, maintenance and inventory of all equipment and expendable supplies; and providing classroom instruction and demonstration teaching. More specific responsibilities included assistance to the heads of departments in the supervision of instructors and students engaged in each of their specialties of electricity and electronics and farm management and food processing.

The Vocational Teacher Trainer was to be assigned to the Division of Vocational and Technical Education in the Ministry of Education. This specialist was to assist the Ministry develop a coordinated national program for training vocational teachers.

USAID/Liberia recently reported to us that the Building Construction Specialist left the project for medical reasons. The departure of this specialist will contribute to the already much delayed implementation schedule and leave four of the eight required field positions vacant.

Commodities were not approved for procurement

Books and calculators procured by Prairie View do not meet project requirements as instructional and teaching aids.

Because the Government's Ministry of Education desired assistance to purchase equipment, Prairie View was designated procurement agent for all project commodities and equipment. Required commodity lists and specifications were to be determined after an on-site analysis of need. The lists of commodities for each school department were to be submitted to the Minister of Education for approval before procurement was initiated. Yet at the end of our visit to Prairie View's home office, in May 1980, the required commodity list had still not been prepared.

Commodities costing $13,208 had been purchased as of March 31, 1980. Of this amount, library books costing $10,416 and hand calculators costing $627 were of questionable use. The remaining procurement of $2,165 included photographic supplies.

During our visit to the project site, we made a visual inspection of the books along with Ministry and USAID/Liberia officials. We found that the vast majority of the books bore no relationship to the vocational training while others were designed for university-level academic courses. The books covered many subjects, ranging from computer language to art and music. Many of the books, in our view, were not relevant to the type of vocational training to be used in the curriculum. Some examples are:

Book Title	Quantity	Unit Cost	Total Cost
Guide to Fortran Programming	17	6.50	$110.50
Fundamentals of Cobol Programming	7	10.95	76.65
Crafts of Music Teaching	8	6.40	51.20
Woodwind Ensemble Method	11	5.25	57.75
Music for Keyboard Harmony	3	6.95	20.85
Expressive Singing	4	5.50	22.00
Playing and Teaching Percussion Instruments	24	7.50	180.00
Conducting Choral Music	11	8.95	98.45
Black Experience in Big Business	36	6.50	234.00
			$851.40

Prairie View's staff in Prairie View, Texas, selected the books from the University's book store. Selection was made at random from store shelves without a formal requisition or listing of book titles. Our review of Prairie View's home office records indicated that the books shipped to Liberia had not been reordered by the University. While it appears that the books were excess to Prairie View's needs, we could not make this determination. Moreover, the books were selected and shipped in early July 1979 before Prairie View team members arrived in Liberia or made any assessment of technical book needs.

The books were shipped to Liberia along with a shipment of used household goods and personal effects. This shipment was delivered to the project in Liberia in November 1979. At the time of our visit to the project in March 1980, the books had not been removed from their original shipping boxes, and Prairie View's field staff did not know what or how many volumes were included in the shipment.

Prairie View's chief contract representative in Prairie View, Texas, was unable to provide us with an explanation of why these particular books were selected. He stated that if Booker Washington Institute officials determined that any of the books were not suitable for their needs then Prairie View would donate them to another institution in Liberia.

Prairie View's Voucher No. 4 for November 1979 included charges for 22 hand calculators costing $627. The invoice was paid in December 1979, along with the book invoice. We found, during our visit to the project site, that the calculators paid for with AID-grant funds had not been received. In this regard, Prairie View officials in Prairie View, Texas, stated that the calculators were procured from the University's book store but could not recall when or how the calculators were shipped. Moreover, according to Prairie View's field staff, there was no known use for them in the project.

A project work plan has not been prepared

A project work plan has not been developed.

According to the contract scope of work, the contractor's Life of Project Work Plan was to be submitted during the first six months of the contract. The project work plan was to be developed to assure the accurateness and adequacy of the project design and implementation plan.

The project agreement called for Prairie View to review, revise and confirm all project tasks, supporting systems, inputs, and outputs including the schedule of project implementation. This work plan, which was to be approved by the Minister of Education and AID, was to provide the basic criteria for evaluating project problems and progress.

Prairie View has yet to complete the work plan. In our view, until this plan is completed, the Minister of Education and AID have little basis on which to judge whether Prairie View has complied with the terms of the contract and whether the objectives of the project will be reached.

Progress reports do not show progress made

Prairie View's progress reporting is inadequate.

When we visited the project site at Kakata, Liberia, in March 1980, Prairie View had not submitted any progress reports as required by the contract. However, during discussions with Prairie View personnel, the Chief of Party stated that the first two progress reports were "being put together." By the end of our audit, two reports had been submitted. The reports covered

the period through December 31, 1979. The contractor's progress report recognized that staff vacancies were a cause for delay in the implementation of the project.

In our view, the progress reports were not a useful tool for USAID/Liberia monitoring. The problem is that the reports provide no substantive information in terms of meeting project objectives. This problem, however, cannot be addressed until such time that Prairie View develops a work plan.

Prairie View's home office logistical support is deficient

Lack of adequate home office backstop support has adversely affected the ability of Prairie View's field staff to implement the project.

Prairie View's home office in Prairie View, Texas, has the responsibility for providing adequate logistical and administrative support to its contract team in Liberia. Funds have been provided under the AID-financed contract to defray the expenses of such support. Yet, during our discussions with Prairie View field personnel in March 1980, these personnel expressed their concern about the lack of home office backstopping. They cited such problems as:

-- lack of adequate housing and furnishings,

-- delay in getting their dependents to Liberia, and

-- need for a petty cash fund to make local purchases for day-to-day operations.

We discussed these problems with Prairie View's chief contract representative in Prairie View, Texas. The representative stated that he was presently working on a procedure to provide a petty cash fund for the field personnel. However, while the representative was aware of the other backstop support problems, he was taking little action to address them. The political situation was cited as the reason for not addressing the problems. Hence, according to the representative, household furnishings would not be shipped, dependents would not travel to Liberia, etc. until the Minister of Education had given approval for continuation of the project. We could find no evidence, however, that the Minister of Education had informed Prairie View to suspend the activities under the contract. Moreover, the support problems described to us by Prairie View staff in Liberia existed before the political problems in Liberia visibly surfaced.

Cash advance for contract expenses is excessive

Prairie View has requested and received a cash advance of $350,000, which, in our view, is in excess of its needs.

From the outset, Prairie View has insisted that it has not had a sufficient cash advance to meet on-going expenses. At the same time the Minister of Education has insisted that the cash advances made to Prairie View are

adequate to cover contract expenses. It is the Minister's position that the problem is due to Prairie View's untimely preparation of reimbursement invoices.

AID has advanced Prairie View a total of $350,000 to meet on-going contract expenses. An initial cash advance of $250,000 was made on May 15, 1979. At the request of the Minister of Education, a second cash advance of $100,000 was made on March 5, 1980.

The contract required Prairie View to submit a cash flow analysis to the Government of Liberia and AID not later than nine months from the date of commencing work under the contract. This analysis was to be used "to revise the cash advance to a minimum amount necessary for contract performance in a three-month period." This cash flow analysis, which was due on April 9, 1980, justifying the cash advance of $350,000, has yet to be prepared by Prairie View.

The contract requires Prairie View to submit invoices for reimbursement of claimed costs on a timely basis. Prairie View, in discussions with AID/W officials in January 1980, acknowledged its slowness in submitting vouchers for payment. No explanation was given for the delay.

An analysis made by us indicated that the average monthly expenditure for the 12-month period ended March 31, 1980 was approximately $40,000. Thus, without the benefit of the contractor's analysis of cash needs, it would appear that $120,000 should be sufficient to meet contract expenses in a three-month period. Accordingly, unless Prairie View can justify the need for the $350,000 cash advance, USAID/Liberia should take appropriate steps to reduce the amount of the advance to $120,000.

Conclusions and Recommendations

Prairie View's performance has not been adequate in meeting project objectives. More than a year has elapsed since the contract was signed, yet despite repeated demands by AID and the Minister of Education, little has been done to improve the situation. In our view, if project objectives are to be reached, AID needs to encourage a quick settlement of all disputes that have led to poor contractor performance. A decision needs to be made concerning the present staff requirements and the amount of the cash advance payment. Commodity procurement must be initiated, and most important, a project work plan must be prepared. Therefore, in our view, USAID/Liberia, in coordination with the Ministry of Education, needs to reassess the project in terms of current contractual requirements and determine the continuing viability of Prairie View to accomplish the purposes of the contract. Accordingly, we recommend that:

Recommendation No. 2

USAID/Liberia, in coordination with the Government of Liberia's Ministry of Education, reassess the projects in terms of the current contractual requirements and determine the continuing viability of Prairie View to accomplish the purpose of the contract.

Recommendation No. 3

USAID/Liberia should reduce the level of the AID cash advance to $120,000 until such time that Prairie View submits a cash flow analysis justifying its need for a larger amount.

FINANCIAL MATTERS TO BE RESOLVED

A number of financial matters need to be resolved. These matters include costs claimed by Prairie View for proposal recovery, the applicable overhead rate that should be used, and questioned costs of $11,043 relating to commodity procurement.

Project proposal recovery costs

The Minister of Education has disallowed Prairie View's claim for reimbursement of project proposal recovery costs.

Prairie View submitted a claim for reimbursement of $36,055 in contract proposal recovery costs. This claim was made pursuant to Article 13.E of the contract which states:

> "The GOL agrees to reimburse contractor for allowable and allocable expenses incurred in the preparation, presentation and negotiation of contractor's contract proposal only to the extent such expenses are reasonable and not reimbursed by indirect (overhead) cost payments."

The Minister of Education, however, disallowed the claim. Among the reasons cited for the disallowance were the following:

- "Consultant payments to members of the Administrative Staff and faculty who are regular employees of the contracting institution are not allowable since they are already on the university payroll.
- "The costs for proposal recovery are unreasonable. The number of consultants is excessive and since we do not know who are faculty, we do not know which we can approve.
- "Hand carrying of proposals to New York for shipment was unnecessary and inefficient."

Prairie View's chief contract representative stated that it is the University's policy to pay employees salaries even when they are doing outside consultant work. This policy, according to the representative, is consistent with the practices of other universities in Texas. It therefore does not concur with the disallowance.

Our review indicated that of the $36,055 claimed for contract proposal recovery costs, only $25,716 had been recorded as expenditures in Prairie View's Liberia contract accounts. These records indicated expenditures of $18,375 for consultant fees for 18 members of the University staff and five outside consultants. The balance included $14,860 for travel and per diem, $1,175 for secretarial services and $1,645 for printing and miscellaneous expenses.

We verified that actual payments had been made for the $25,716 recorded in the Liberia contract accounts. But we did not verify whether the remaining $10,339 in proposal costs had been incurred. These latter costs were mainly travel and per diem. Moreover, since these costs were incurred prior to the signing of the contract, they had been charged to operating costs of the department in which the employee worked. Therefore, notwithstanding the Minister of Education's reasons for the disallowance of proposal costs, we believe that the $10,339 not recorded in the contract accounts should be disallowed in any event because these costs were included in indirect costs.

Overhead rate

The wrong overhead rate for recovery of on-campus overhead costs was used in the contract.

The Department of Health and Human Services (HHS), formerly the Department of Health, Education and Welfare, has the cognizant audit responsibility to establish an overhead rate for the contract. According to the contract, the rates negotiated each year between Prairie View A&M University and the HHS Audit Agency will be accepted by the Government of Liberia. The contract is also to be amended to reflect changes when new rates are negotiated and adjustments are to be made to bring payments into agreement.

The contract specifies that overhead rates to be used for the fiscal years ending August 31, 1979 and 1980 will be 60 percent of on-campus direct salaries and wages and 25 percent of off-campus direct salaries and wages.

We reviewed HHS's negotiation agreement dated January 2, 1979. This negotiation agreement established four predetermined fixed overhead rates for the period September 1, 1978 through August 31, 1980. The rates are:

Rate	Location	Applicable To
60%	On Campus	Research
25%	Off Campus	Research
40%	On Campus	Educational Services
25%	Off Campus	Educational Services

Even though the contract clearly states that the 60 percent rate will be used for on-campus direct salaries and wages, we believe that the applicable rate should be the 40 percent negotiated rate for educational services agreement. According to the Federal Procurement Regulations, the educational services agreement rate applies to agreements that provide professional technical services to cooperating countries as opposed to organized research. We referred this matter to HHS for a final decision on the applicable rate. In their reply, dated July 22, 1980, HHS stated that, "the applicable on-campus rate for the 2-year period ended August 31, 1980, would be 40 percent,

the negotiated rate for educational service agreements." Therefore, it appears that an amendment needs to be made reducing the on-campus overhead rate to 40 percent.

Questioned costs

Project costs totaling $16,344 were questioned by us.

At the end of our visit to Prairie View's home office in May 1980, it had submitted six invoices for costs totaling $475,590 through March 31, 1980. These invoices covered contract costs through March 31, 1980. However, because of contract disputes, the Minister of Education had disallowed $78,730, leaving a balance of $396,860 payable to Prairie View.

We believe an additional $16,344 should be withheld until a final decision is made whether these questioned costs are reimbursable under the terms of the contract (see Exhibit A). The questioned costs of $16,344 include a shipment of books and hand calculators costing $11,043 and Prairie View's on-campus overhead costs of $5,301.

AID-financed textbooks costing $10,416 do not meet the project's requirements for secondary vocational training at Booker Washington Institute. The 22 hand calculators costing $627 were not received at the project site. Therefore, we are recommending that the $11,043 cost of AID-financed commodities be disallowed. HHS determined that the applicable on-campus overhead rate should be 40 percent; therefore, we have recommended that the contract be amended accordingly.

Conclusions and Recommendations

Prairie View does not concur with the Minister of Education's disallowance of $36,055 in project proposal costs. The USAID/Liberia, in our view, should take appropriate action to ensure that this matter is resolved so that it does not adversely affect Prairie View's performance. Appropriate action should also be taken to resolve the $16,344 in claimed costs questioned by us. Accordingly, we have made the following recommendations:

Recommendation No. 4

USAID/Liberia take appropriate action to offset the $11,043 questioned costs for AID-financed commodities from the next voucher submitted by the contractor.

Recommendation No. 5

USAID/Liberia initiate appropriate action to ensure that the Ministry of Education and Prairie View resolve the disallowance for project proposal recovery costs charged to the contract.

Recommendation No. 6

USAID/Liberia should inform the Minister of Education of the applicable on-campus overhead rate for the 2-year period ended August 31, 1980 so that the contract can be amended.

EXHIBIT A

Prairie View A&M University
Contract 669-0131
Contract Costs and Disallowances
March 31, 1980

Cost Category	Contractor Claimed Costs	MOE Disallowances	Auditor's Questioned Costs	Accepted Costs
Direct Cost				
Home Office Salaries	$ 31,486	$ -	$ -	$ 31,486
Field Staff Salaries	152,278	27,468 2/	-	124,810
Travel & Transportation	32,583	2,811 4/	-	29,772
Allowances	27,887	-	-	27,887
Consultants' Fee	9,775	9,775 3/	-	-0-
Commodities	13,208	-	11,043	2,165
Other Direct Costs	160,126	31,809 1/	-	128,317
Overhead				
Home Office (60%)	15,902	-	5,301	10,601
Field Staff (25%)	32,345	6,867 2/	-	25,478
	$475,590	$78,730	$16,344	$380,516

Notes:

1/ MOE disallowance for proposal recovery costs of $30,911 and $898 for employees' insurance and for small appliances.

2/ Reimbursable salaries and overhead of two long-term field specialists for the period August 15, through December 31, 1979. Contract employees did not arrive in Liberia until January 25, 1980.

3/ Consultant fees charged for services for planning, organization, and development of operational plans for life of project during team planning visit to Liberia in April and May 1979.

4/ Travel and transportation costs for contract team planning visit to Liberia in April and May 1979.

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USAID/Liberia reassess the Government of Liberia's capability to select, award and administer host country contracts before future contracts of this type are approved.	5
Recommendation No. 2	
USAID/Liberia, in coordination with the Government of Liberia's Ministry of Education, reassess the projects in terms of the current contractual requirements and determine the continuing viability of Prairie View to accomplish the purpose of the contract.	11
Recommendation No. 3	
USAID/Liberia should reduce the level of the AID cash advance to $120,000 until such time that Prairie View submits a cash flow analysis justifying its need for a larger amount.	11
Recommendation No. 4	
USAID/Liberia take appropriate action to offset the $11,043 questioned costs for AID-financed commodities from the next voucher submitted by the contractor.	14
Recommendation No. 5	
USAID/Liberia initiate appropriate action to ensure that the Ministry of Education and Prairie View resolve the disallowance for project proposal recovery costs charged to the contract.	14
Recommendation No. 6	
USAID/Liberia should inform the Minister of Education of the applicable on-campus overhead rate for the 2-year period ended August 31, 1980 so that the contract can be amended.	14

LIST OF REPORT RECIPIENTS

Deputy Administrator	1
Assistant Administrator/Africa	5
USAID/Liberia	5
REDSO/WA	1
Liberia Desk	1
AFR/EMS	1
SER/CM	1
Assistant Administrator/LEG	1
General Counsel	1
Controller, FM	1
IDCA's Legislative and Public Affairs Office	1
PPC/E	1
DS/DIU/DI	4
Auditor General	1
AAG/EA	1
AAG/EAFR	1
AAG/Egypt	1
AAG/LA	1
AAG/NESA	1
AG/PPP	1
AG/IIS	1
IIS/AFR	1