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UNITED STATES GOVERNMENT

Memorandum

279-0045

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TO : Mr. Charles D. Ward, Director
USAID/Yemen

FROM : E. H. Gustman *EHG*
Regional Inspector General for Audit - Karachi

SUBJECT: Memorandum Audit Report No. 5-279-81-11
Audit of Selected Rural Development Activities
in Yemen

DATE: May 18, 1981

INTRODUCTION AND SCOPE

This report covers our review of two rural development projects in Yemen that were designed to encourage and assist village and community level development activities in various locations in Yemen. The Rural Development Project (No. 279-0031) was started in 1977. The project began to experience implementation problems early in 1978 that steadily became more serious and eventually resulted in a decision to phase the project out as of March 31, 1981. Through March 1981 a total of \$1,390,000 had been obligated for the project and expenditures were approximately \$1,308,000. The Local Resources for Development Project (No. 279-0045) was initiated in June 1979 and was designed to improve the capacity of Local Development Associations (LDA's) to plan, implement and evaluate locally initiated development projects. As of March 31, 1981, a total of \$3,304,000 of AID funding was provided for this latter project and expenditures totalled about \$1,140,000.

The primary purpose of our audit was to determine if the ongoing project was being implemented in accordance with AID policy and procedures and to review phase out activities related to the earlier project. We also reviewed problem areas identified in the earlier project to determine if similar problems were being experienced in the follow-on project. Our examination included a review of pertinent project records, visits to sub-project sites, and discussions with contract staff and officials of USAID and the host government. Our examination was carried out in accordance with generally accepted auditing standards and included such tests of records and other procedures considered necessary. The review covered project activities from September 27, 1977 to March 31, 1981.



AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

AID made an operational program grant to the Save the Children Federation (SCF) in September 1977 to provide partial support for village and community level development activities in two local districts of the Governorate of Mahweit. At the time of our examination, USAID was in the final stages of phasing out the project because the purposes of the grant were not being obtained. Right from the very beginning, the project experienced implementation delays due to staffing and communication problems. For example, SCF did not provide an expatriate staff with the requisite professional skills and their four Project Coordinators did not have prior rural development experience or any previous work experience with SCF. In addition, SCF was unable to recruit four Yemeni field coordinators until almost two years after the project was underway. As a result, a predominate expatriate character developed around most project activities which contributed to communication problems relating to political matters, cultural sensitivities and official contacts that eventually made the project unworkable.

Our review of the Rural Development Project was limited to determining that close-out activities were adequate and a review of the problem areas encountered in implementing the project to ensure that measures were taken to avoid similar problems in implementing the follow-on Local Resources for Development Project. In general, we concluded that USAID's close-out actions were adequate and that care was taken to prevent a reoccurrence of the major problems experienced.

The Local Resources for Development Project was initiated in June 1979 to assist community level LDA's. The project's purpose was to introduce methodologies for increasing the capacity of LDA's to plan, implement and evaluate locally initiated development projects and to increase local government and external support for the development projects.

Over the 4 year life of the project AID funding is planned at a total of about \$8.7 million. At the time of our audit the project was only partially funded with \$3,304,000 obligated and \$1,140,000 expended. On March 27, 1980, a contract for project implementation was awarded to Chemonics International Consulting Division for \$4,602,690, but initial AID funding was limited to \$2,349,000. The project also provides funding for matching grants, commodities and training. Over the life of the project a total of \$900,000 is planned for matching grants (not to exceed \$50,000 for individual sub-projects) and \$780,000 for U.S. academic and third country training.

Project Implementation

Implementation of the Local Resources for Development Project has been delayed about nine months due to delays in obtaining proposals and selecting the contractor. As a result, sub-projects were just getting underway at the time of our audit. Development of the project work plan has also been delayed. Chemonics submitted their first annual work plan for the period July 1980 to June 1981 on July 29, 1980. AID returned the plan in September 1980 with a request for additional information and further elaboration on specific aspects of project implementation. Another long delay occurred in preparing a revised work plan and resulted in Chemonics releasing their Project Manager in February 1981 and assigning an Acting Project Manager from their home office. In March the acting Project Manager submitted a revised work plan for the period January through June 30, 1981.

Despite the failure to prepare an acceptable work plan, the contractor has made some progress in project implementation. During the first six months after arrival of the contract team, project personnel surveyed numerous potential sub-projects and prepared preliminary drawings and cost estimates. The surveys were requested by the Coordinating Councils of Hodeidah and Hajja for use in their respective LDAs and resulted in several matching grant projects being selected and submitted for approval. Five of the matching grant projects were included in the revised work plan and scheduled for implementation beginning in May and June 1981.

The training component of the project also got underway with the arrival of a Training Specialist in January 1981. For example, an Administration and Accounting Course at the National Institute for Public Administration is scheduled in May 1981 for about thirty personnel of the Confederation of Yemeni Development Associations and the LDAs. In addition, one long term participant will begin training in June 1981 for a Master's Degree in Public Affairs specializing in development administration.

Research Activities

A \$249,400 contract to carry out project research activities was awarded to Cornell University, but thus far the results of their efforts have not been fully utilized. Cornell agreed to undertake a socio-economic survey and an in-depth study of selected local districts. Their research was intended to contribute to project implementation by providing information to assist USAID in identifying areas with potential and/or resources for economic development including reports and analyses on labor use, income, land tenure and local participation. The materials prepared by Cornell have been used for staff orientation and as background material in discussions, but the information has not been used in designing more effective and economical rural development activities. Increased USAID monitoring in this area is needed to ensure that research results are incorporated into the planning of future project activities.

Project Administration

During our review we noted two area's where corrective action was needed to improve project administration and to provide adequate control over project funded equipment and commodities.

In the first instance, we noted that project plan agreements are considered to be critical documents in the approval process for all sub-projects that include matching grants but there were no plans to use similar agreements for sub-projects where only technical assistance and training is being provided. In answer to our draft audit report, you agreed in principle that similar agreements would be useful for all sub-projects and you indicated that the matter would be resolved with host government officials, therefore, we are not repeating our recommendation for such action.

We also noted that Chemonics is not maintaining adequate inventory records on equipment and commodities procured from AID provided funds. As of December 31, 1980, Chemonics reported expenditures of \$218,743 for household furniture, office equipment and project tools. They maintained a physical listing of items in the inventory but the dollar value of the inventory has not been reconciled with the control account and, therefore, it cannot readily be determined if the listing is complete. As a further control over household furniture and the inventory of property at residential locations, Chemonics should obtain a receipted listing of such assets at each location.

Recommendation No. 1

The Director, USAID/Yemen, should require Chemonics to maintain adequate inventory records for project equipment and commodities and obtain a receipted listing of furniture and equipment issued to individual residences.

LIST OF REPORT RECIPIENTS

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Bureau For Near East

Assistant Administrator (AA/NE) 5

Office of Near Eastern/North African Affairs NE/NENA 1

Audit Liaison Officer 1

Bureau For Development Support

Assistant Administrator (AA/DS) 1

Office of Development Information and Utilization (DS/DIU) 1

Office of Rural Development and Development Administration DS/RAD 1

Bureau of Private and Development Cooperation

Assistant Administrator (AA/PDC) 1

Office of Private and Voluntary Cooperation (PDC/PVC) 1

Bureau For Program and Policy Coordination

Office of Evaluation (PPC/E) 1

Office of Legislative Affairs (AA/LEG) 1

Office of General Counsel (GC) 1

Office of Finance Management (FM/ASD) 1

IDCA Legislative and Public Affairs Office 1

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Inspector General (IG) 1

Communications and Records Office (IG/EMS/C&R) 12

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