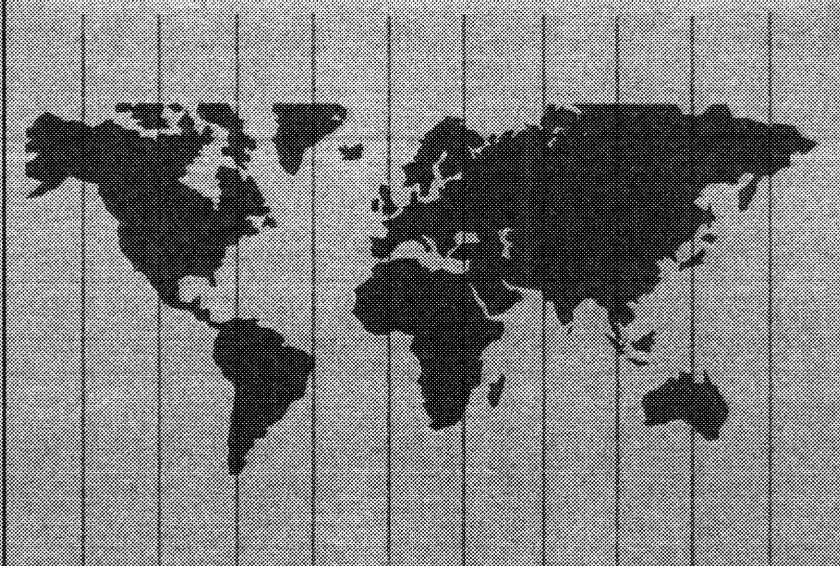
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL

MEMORANDUM ON REVIEW OF THE SENEGAL RURAL HEALTH SERVICES DEVELOPMENT PROJECT AND THE CEREALS PRODUCTION PROJECTS

Audit Report No. 0-685-81-50

March 6, 1981



Regional Inspector General for Audit
WASHINGTON

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Purpose And Scope Of Review

We recently completed an examination of host government financial management practices in regard to the utilization of AID-financed local currencies in the Sahel (Audit Report No. 81-35, dated January 29, 1981). As part of that examination we made a detailed review of three AID-financed projects in Senegal: the Rural Health Services Project and the two cereals production projects.

The purpose of our review was to determine whether the Government of Senegal's financial management practices were adequate to control the AID-financed local currency funds provided under the projects. The secondary purpose was to determine whether the projects were achieving their stated purposes. The review included an examination of project records and discussions with Government of Senegal and AID officials. This memorandum contains our findings of specific problems that are hampering those projects.

THE RURAL HEALTH SERVICES DEVELOPMENT PROJECT IS NOT ACHIEVING ITS OBJECTIVES

Project Implementation

The primary purpose of the $3.3 million Rural Health Services Development Project (No. 685-0210) is to establish a new self-financing village level health hut system. We found this purpose was not being accomplished because the health huts were not financially self-sustaining. The secondary objective of the project, expanding the number of health posts, was questionable because the Government of Senegal was unable to support the already existing number of health posts. The project has also been affected adversely by the failure of the host government implementing agent to keep adequate accounting records and institute proper financial controls.

The Government of Senegal's (GOS) basic health care unit is the health post which provides free services and medicines. Under the $3.3 million project a new, lower level system of self-financing village health huts was to be established in the Sine Saloum region of Senegal. About 8 to 10 health huts were to be established subsidiary to and supervised by each health post. The more common ailments were to be treated at the health huts. Those persons with ailments that could not be treated by the health huts were then to be referred to the health posts.

To achieve this new system of health huts, AID provided financing for the construction, staffing, furnishing and provisioning of 600 village health huts, and the construction of 15 new health posts. As of March 30, 1980, $1.9 million of project funds had been expended.

A basic premise of the health hut system was that AID would finance initial stocks of medicines for the health huts which would be sold to villagers at prices sufficient to provide replacement medicines. The objective was to establish self-financing revolving funds at the village health hut level. We found, however, that this was not happening. At the time of our review, 295 of the planned 600 self-financing health huts had been constructed. About one-third of the first 110 health huts put into operation had ceased to operate because they were not financially viable. In addition, AID financial studies of 14 operating health huts revealed only one that was covering the costs of medicines used.

One of the major reasons the AID-financed health huts were not economically viable was that most of the fee charging huts were constructed within three miles of existing government-supported health posts which provide free services and medicines. At the present rate of attrition virtually all the huts will soon stop operating because they will be unable to pay for a resupply of medicine. As a recent draft of an AID evaluation report noted, "if we do not change soon the project will go the way of other useless similar efforts, raising hopes but producing only disappointment."

Before the project began, there were 59 health posts in Sine Saloum. The project agreement provided for the construction of 21 new health posts, 15 to be financed by AID and six by the GOS. At the time of our review, eight health posts had been constructed, all financed by AID. There was no evidence to show when or if the GOS would finance its share. Another matter of concern about the construction of these health posts is the fact that the GOS is unable to finance its existing system of health posts. In this regard, the March 1977 project paper noted that:

> "There are inadequate numbers of trained personnel at all levels; there is lack of supervision all along the health delivery chain; there are inadequate numbers of rural health posts; there is an inadequate supply of essential basic drugs; there is a weak logistical infrastructure, and there is an inadequate funding allocated to the health sector."

At the time of our review, we could find no evidence to show that the GOS had improved its ability to finance the existing health post system. This being the case, expanding the number of health posts, in our view, appears questionable. As a result, we recommended in our draft report that the construction of additional health huts and health posts be discontinued and the project be redesigned.

In response to our draft report, USAID/Senegal advised us that the project had been redesigned. We reviewed the revised project paper and noted that actions were taken to address the issues noted above. Accordingly, we deleted the recommendation from this report. As redesigned, the project provides, among other things, for the construction of no further health posts; for reducing the number of health huts from 600 to 400; for establishing a system of user fees at health posts; and for more rational site selection procedures for health huts.

Financial Practices Need To Be Improved

The host government accounting system for the Rural Health Services Development Project is deficient. Books and records are inadequate and internal controls are lacking. These deficiencies can result in the improper use of AID-financed local currencies.

The project agreement required the government to maintain its accounting books and records and controls in accordance with sound commercial practices. Bid documents, AID approvals, invoices, and other documentation in support of disbursements made through an AID-funded special account were to be kept for review. In addition, the project agreement stated that AID would have the opportunity of advance review for bid documents, contracts, and proforma invoices exceeding CFA 1,000,000 ($4,762*).

As of March 31, 1980, the government implementing agent for the project, the Governor of Sine Saloum, had received the equivalent of $503,000 in local currency funds. We found that: (1) accounting records maintained by the Office of the Governor were inadequate; (2) financial controls were virtually non-existent; (3) certain procurement transactions appeared questionable; and (4) AID was not involved in approving large procurement transactions.

Since mid-1979 AID has been aware that the accounting records and controls of the implementing agent were inadequate. In June of 1979, AID devised a special voucher payment system and instructed a member of the Governor's staff in the use of the system. By September 1979, however, this system had fallen into disuse. In fact, at the time of our examination in May 1980, there were no formal accounting records.

The special account established for the deposit of AID-financed local currency funds was handled by the Governor. He wrote checks against the account without maintaining any control over the number of checks written. At the time of our review, the account had been overdrawn by the equivalent of $1,000 and there were three outstanding checks equivalent to $10,000 that had not yet been cashed. Moreover, the Governor seldom told the accounting unit about the checks drawn against the account, and did not provide documents to support the disbursements.

Because the transactions were not adequately documented, it was impossible to determine whether the AID funds were used for the purposes intended. To make matters worse, cash was given to the individual who procured the goods and services. This is the type of poor internal control which can foster misuse of the funds.

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* Exchange Rate: $1.00 = CFA 210.

An example of this was the procurement of horses and buggies. The project agreement authorized up to $41,080 for the procurement of 79 horses and 79 buggies for transportation of supervisory personnel. At the time of our examination, 23 horses and 23 buggies had been acquired at a total cost of $22,300. The 23 horses were purchased for cash by a government official in January 1980 at a price of CFA 75,000 ($357) each. The only documentation for this transaction was a statement prepared by the official who purchased the horses. As regards this transaction, many villagers in the area informed us that this price for horses was unreasonably high. They also indicated that it is highly unusual for each horse to be purchased for the same amount regardless of age and condition. Moreover, most of these horses and buggies had not and probably will not be used on the project to any significant extent because they are not desired by project supervisory personnel.

As a result of our findings, the draft report on the project recommended that USAID/Senegal:

-- advise the Governor of Sine Saloum that if a mutually acceptable accounting system is not promptly established, AID will discontinue financing through his office;

-- instruct the Governor of Sine Saloum to halt any further purchase of horses and buggies and assure the horses and buggies are used or disposed of properly;

-- revise the project agreement to require AID's prior approval for any procurement in excess of CFA 1,000,000.

In response to these draft report recommendations, USAID/Senegal stated that a mutually acceptable accounting system had been established; that it had verified that the new accounting system was functioning adequately; that no further horses and buggies would be ordered; and that prior written approval would be required for any procurement in excess of CFA 500,000. Accordingly, the recommendations were deleted from this report.

During our next audit, we will verify that the actions taken by USAID/Senegal have, in fact, resolved the problems in the Senegal Rural Health Development Project.

THE SENEGAL CEREALS PRODUCTION PROJECTS

Increased Production

The two cereals production projects are aimed at increasing the production of millet in certain subdivisions (departments) in the Thies and Diourbel regions. Yet after four years of AID support and the expenditure of $4.67 million, we found no evidence that the first project had increased millet production. Nevertheless, the Senegal mission declared the first project a success and obtained approval for a second $7.7 million project to carry on and expand the extension efforts supported under the first one.

We also found that the GOS had not supported the number of project personnel it had agreed to support during the disbursement period of the first project. The result was that AID paid an estimated $550,000 more than its agreed to share of salaries and allowances.

As of March 31, 1980, a total of $4.75 million had been obligated and $4.67 million expended under the first project to increase the production of millet in the Departments of Thies, Diourbel and Bambey. For the most part, the project financed the additional costs associated with more than doubling the extension staff of the Senegal Agricultural Extension Service (SODEVA) in the project area. Two of the key improvements to be advocated by the augmented extension service in order to increase millet production were the expanded use of millet fertilizer and the new SOUNA III millet seeds. Available data indicated, however, that the project did not result in an increase in millet production in the project area over those levels which would have been achieved without the project. We also found no evidence of an increase in the use of fertilizer and the new millet seed during the project period.

At the time of our review, USAID/Senegal had data showing average millet production for 1975-76 and 1978 for two areas. The first area consisted of the three departments assisted (Thies, Diourbel and Bambey) and the second consisted of two adjacent departments (Tivaouane and M'Backe) which the AID project had not assisted. Between 1975-76 and 1978, millet production in the AID project area increased by 3.2 percent. During this same period, production in the adjacent non-project areas, where the extension services were not greatly expanded, increased by 4.7 percent.

Central to an increase in millet production was to be a greatly increased use of fertilizers. However, the data showed that the use of fertilizers actually declined in the years subsequent to 1975 even though it was the intent of the project to encourage increased fertilizer usage. This suggests that the millions of dollars AID spent in the project area to encourage an improved millet production program through, in great part, increased use of fertilizer had no effect.

In 1974 AID stated that SOUNA III millet seed had already "largely replaced the longer-season millets." Five years later, however, USAID/Senegal noted that only 20 percent of the project area planted to millet would be using SOUNA III in 1979. Thus, we could find no evidence that the use of the new millet seed was expanding.

That AID's support of increased levels of extension services by SODEVA had not increased millet production was also indicated in a December 1979 World Bank study which concluded that SODEVA's activities have had little impact on agricultural production.

The second Senegal Cereals Production Project (No. 685-0235), in the amount of $7.7 million, was authorized on December 18, 1979. It basically provides for the continuation of support for expanded extension service in the Departments of Thies, Bambey and Diourbel as well as an expansion of the extension service in the adjacent Departments of Tivaouane and M'Backe.

In justifying this $7.7 million follow-on project, AID declared the first $4.7 million project a success based principally on a February 1978 evaluation report. We consider the evaluation report inconclusive since it stated, "it is not possible to measure the impact of the project on production or on the productivity of the farm unit." The evaluation pointed out the need for more study before authorizing a follow-on project, and stressed the need for obtaining objective data on project accomplishments.

In justifying the $7.7 million second cereals project the Senegal mission estimates that by crop year 1983 it will result in a 70 percent increase in millet production in the project area:

> " . . . through extension of a set of simple production techniques, including the use of the improved, drought tolerant variety SOUNA III, early thinning at 6-12 days after germination, and the use of fertilizer at the Institut Senegalais de Recherche Agricole (ISRA) recommended rate of 60-30-30 kg/ha."

After four years of effort under the first cereals project, there is no evidence to show that it has had any significant impact on increased millet production through the use of fertilizer and SOUNA III seeds. We, therefore, find no basis for the optimistic forecast of a 70 percent increase in production under a second project.

Inasmuch as the first project was not the success the project paper indicated it to be, we believe the Africa Bureau should reevaluate its approval of the second Senegal Cereals Production Project.

USAID/Senegal disagrees with our conclusion and contends the purpose of the first cereals production project (Phase I) was "to carry out and expand a farmer intensification program" and that, "no one quantifiable objective was set by which to measure project impact in view of the scope of services planned for a farmer intensification program." The mission indicated the first project was a success because, "the basis for increased yields had been developed during Phase I's execution."

Notwithstanding these comments, we have retained the finding and related recommendation. We based our position on:

(1) the Project Paper, justifying Phase I, states, "The principal objective of this AID assisted project is to increase the production of cereals, principally millet";

(2) the AID memorandum requesting the Administrator's approval of Phase I states, "The principal objective of this AID-assisted project is to increase the production of cereals, principally millet"; and

(3) the Project Agreement, as revised, for Phase I states, "The original project agreement has as its purpose to increase the production of millet and groundnuts."

Moreover, we noted that in justifying Phase I in 1974, USAID/Senegal gave assurances that, "both the necessary technology and methods exist to assist farmers to obtain greater productivity for millet and groundnuts."

Recommendation No. 1

We recommend the Assistant Administrator/Bureau for Africa (AA/AFR) not expand the second Senegal Cereals Production Project (No. 685-0235) to the Departments of Tivaouane and M'Backe until such time as USAID/Senegal can demonstrate that the expanded extension service in the Thies, Diourbel and Bambey Departments is achieving production increases as a direct result of AID's assistance.

Personnel Costs

Although the project paper justifying the first Senegal Cereals Production Project and the bilateral project agreement provided that the GOS would pay for the salaries and other costs of 139 project personnel, USAID/Senegal did not monitor the project to assure that the GOS was doing so. In fact, the GOS was not paying for the salaries and related costs of 139 project personnel. As a result, AID paid costs (we estimate about $550,000) which should have been paid by the GOS.

The project paper for the first project stated that AID financing:

> " . . . will be in addition to current operations and will not represent a substitution of AID financing for that previously available from the government. Personnel requirements at the field level for extension work and the relevant cost projections are based on the fact that current personnel will continue to be paid from the SODEVA budget while additional personnel required for the period October 1, 1974 to March 31, 1978 will be financed by the AID project."

The paper further stated that, "The projections for financing of personnel by AID, therefore, cover additional personnel needed over and above present staffing levels in order to implement the expanded programs." Schedule 2A of the project paper showed that 139 project personnel were to be financed by the GOS.

The project agreement signed by both AID and the Government of Senegal also clearly showed that the government was obligated to pay for the salaries and related costs of 139 project personnel. The background section of the project agreement stated that AID was providing "funding for additional personnel required at the field level." The planned objectives section noted that the existing staff totaled 139. Exhibit 5 to the project agreement shows that the GOS was to be responsible for financing 139 project related employees. Finally, GOS inputs section states that the GOS is responsible for paying salaries and other costs of 139 SODEVA staff.

Although the USAID/Senegal received reports showing that the government was not paying for the salaries and related costs of 139 project personnel, we found no evidence that indicated they brought this to the attention of GOS officials. Readily available evidence that the GOS was not paying for 139 project staff members was as follows:

(1) A project evaluation report dated March - April 1977, noted that the GOS "is paying a few less people than was agreed to in the Pro Ag and the project a few more than was set."

(2) A February 15, 1978 evaluation showed that the GOS paid only 129, 126 and 126 for years 1975-76, 1976-77 and 1977-78.

(3) USAID/Senegal had a GOS report for fiscal year ended March 31, 1977, which showed that the GOS was paying for 126 project personnel as of March 1977 while AID was paying for 163 project personnel.

In addition, our review of payroll data as of March 31, 1979, indicated that the GOS was paying for the salaries of 111 personnel and AID 157. We estimate that the overpayment for personnel costs was in the magnitude of $200,000 based on the estimate that the GOS was consistently charging AID over a four-year period with the salaries of an average 13 project personnel which should have been paid by the GOS.

Although the project agreement states that the government was to pay the salaries and other costs, such as traveling expenses of the 139 pre-project staff level, the government has been charging AID for these other costs. In April 1976, AID paid automobile and per diem of CFA 1,126,000 ($5,360) for 20 of the staff for which the government was responsible; in April 1977, AID paid CFA 2,235,000 ($10,640) of such allowances for 36 government-paid staff; in March 1978, AID paid CFA 2,181,000 ($10,380) for the allowances of 38 government staff and in March 1979 AID paid CFA 2,895,000 ($13,786) allowances for 44 government staff. Based on the above samplings of monthly overcharges, we estimate that AID was overcharged for these other costs in the magnitude of $350,000 during the four-year grant period.

In view of the foregoing, we concluded that AID should have the government recompute its billings so that it bears the costs of 139 project personnel plus related allowances. AID should then obtain a refund from the government which we estimate should be in the magnitude of $550,000.

USAID/Senegal disputed our finding which was based on the fact that the Government of Senegal (GOS) was responsible for paying for the salaries and other costs of the pre-project staff of 139, stating:

> "The Project Agreement (pp. 6-7) stipulates merely that SODEVA's field agent staff in the project area will be increased from 112 to 253 'by the termination of the project.'
>
> "It further specifies (p.16) that AID will provide 'salaries for expansion of local staff in the project area (see Exhibit 4, Annex D).' The exhibit in the reference specifies the respective GOS and AID contributions to salaries of 'Field Operations', of FCFA 184,153,000 and 248,015,000 (a 43:57 breakdown).

"On page 18, is specified further that the GOS will provide . . . '(a) Salaries and other costs of 130 SODEVA staff members on the payroll of SODEVA December 31, 1974 and serving in the project area.' Table 5 shows the planned breakdown of total personnel numbers to be funded respectively by AID (170 by 1977) and GOS (139 all years). Since this table is not mentioned in the ProAg text, it is assumed to be illustrative (personnel needs are subject to change, as are per capita costs) rather than normative, while the financial data in Table 4 are assumed to be the binding figures. Yet, the audit findings address themselves exclusively to the personnel numbers.

"Unless the audit shows substantial discrepancies in relative financial contribution by GOS and AID for personnel salaries, I am therefore not inclined to accept this finding."

We do not concur with USAID/Senegal's comments for the following reasons:

-- They ignore the stress in the project paper and project agreement that AID funding was only for additional personnel and not for the pre-project staffing.

-- They cite three differing personnel figures for pre-project staffing, specifically 112, 130 and 139, indicating a confusion which we do not believe exists. The project agreement does not merely indicate that departmental level staff will be increased from 112 but also that regional level staff will be increased from 27 showing a pre-project staffing level of 139. The 130 staff level quoted by USAID/Senegal represents a typographical error in the project agreement as evidenced by the French translation opposite it which correctly shows 139 and every other one of the numerous references in both the project paper and the project agreement. Thus, every real reference in the project agreement shows the GOS responsible for funding 139 project staff personnel.

— USAID/Senegal's contention that AID was to bear some fixed ratio of contribution for project personnel costs is nowhere referred to or supported in the project paper or the project agreement.

For the above reasons we have retained the recommendation.

Recommendation No. 2

USAID/Senegal should have the government recompute its billings under the first cereals production project so that the government bears the costs of 139 project personnel plus related allowances. A refund for the overcharges should be obtained.

LIST OF REPORT RECIPIENTS

Deputy Administrator	1
USAID/Senegal	5
Assistant Administrator/AFR	5
REDSO/WA	1
AAA/AFR/PMR	1
AFR/EMS	1
AFR/SWA	1
Senegal Desk	1
Assistant Administrator/LEG	1
General Counsel	1
IDCA's Legislative & Public Affairs Office	1
PPC/E	1
DS/DIU/DI	4
Inspector General	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Panama	1
RIG/A/Karachi	1
RIG/A/Nairobi	1
IG/PPP	1
IG/II	1
IG/II/AFR	1