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THE
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MAJOR IMPLEMENTATION PROBLEMS
CONFRONT PROJECT ACTION BLE IN MALI

Audit Report No. O-688-81-139
Issue Date: September 24, 1981



Regional Inspector General for Audit
WASHINGTON

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Project Action Ble has encountered serious management problems. The grantee has failed to:

- Establish an adequate system to account and control AID funds;
- Comply with AID procurement regulations in contracting for goods and services;
- Establish a revolving credit fund as required in the project agreement; and
- Utilize project commodities in an effective manner.

AID suspended funding to the project pending management improvements by the grantee. This report contains recommendations that should be addressed by USAID/Mali before lifting the suspension.

MAJOR IMPLEMENTATION PROBLEMS
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EXECUTIVE SUMMARY

Introduction

In July 1978, AID signed a project grant agreement with the Government of the Republic of Mali to assist approximately 2,400 small farmers in Mali's sixth region increase the production of wheat and sorghum. The project was to be administered by Action Ble, a government organization responsible for crop development in the project area. The main element of the project was to provide farmers with irrigation pumps to draw water from the Niger River. Other elements included: (1) the establishment of a credit program for financing the irrigation pumps and other agricultural inputs; (2) the establishment of a revolving credit fund to continue the credit program; and (3) the development of extension services, preplanting pricing agreements, and research.

AID agreed to provide a total of \$2.3 million to the project. Through April 1981, AID obligated approximately \$1.7 million and expended approximately \$1.4 million.

In a January 15, 1981 letter to the Government of the Republic of Mali, USAID/Mali suspended further disbursements under the grant because of inadequate project management and inadequate accounting for AID funds by Action Ble personnel. In this same letter the mission set out the conditions to lift the suspension. At the completion of our review in April 1981, the Government of the Republic of Mali had not met the conditions and the mission had not decided on a future course of action for the project.

Purpose and Scope

In a February 1981 report to the Mission Director, the USAID Controller concluded that Action Ble personnel were not following good managerial and financial procedures, nor were they following the guidelines in the project paper. In one of the 16 recommendations, the Controller requested the mission to ask for an audit of the project by the AID Inspector General. Our review was undertaken in response to the Mission Director's request. Because of time limitations due to reduced travel funds and the magnitude of the accounting problems, we were not able to perform a full project financial review. We did, however, focus on the managerial procedures performed by Action Ble and USAID personnel. Our review included an analysis of records and discussions with the Government of the Republic of Mali, AID, and other appropriate foreign government officials.

Action Ble's Accounting Records And Procedures For Operating Costs Need Improvement

Through April 1981, Action Ble had received the equivalent of \$476,695 in AID-financed local currency to defray operating costs. Of this amount, \$386,346 in expenditures have been reported to the Mali mission. A detailed verification of these expenditures was not possible. Records were not maintained in accordance with sound accounting practices, and the accounting system was not

adequate to control the receipt and expenditure of AID funds. Both the USAID Controller and French Government officials concluded that Action Ble does not have an adequate accounting system. We agree with this conclusion based on finding the following deficiencies:

- Asset, liability, and expense accounts were not maintained.
- Cash receipts and disbursements journals were not complete.
- Many vouchers were not supported by vendor receipts.
- Bank reconciliations were not performed.
- Individual transactions were not referenced to expenditure reports submitted to USAID for reimbursement.
- A system of internal controls was not established.

As a result of these deficiencies, USAID/Mali has no assurance that the funds were used for the intended purposes. During his financial review in February 1981, the USAID Controller questioned the use of AID funds for the payment of several expenditures such as salaries, rent, furniture, etc. At the time of our review, Action Ble had not taken action to account for or recover these improper payments. We believe that every effort must be made to recover the funds in question.

As a condition for lifting the project suspension, USAID/Mali has required that Action Ble: (1) implement acceptable accounting and management systems and (2) hire a qualified accountant. Prior to lifting the suspension the USAID Controller intends that Action Ble personnel receive accounting training from mission personnel. The USAID Controller also established procedures which should improve the mission's financial monitoring of projects (pp 6-10).

Revolving Credit Fund Was Not Established

The project agreement authorizes Action Ble to provide participating farmers with credit for financing the purchase of irrigation pumps, small farm implements, and other agricultural inputs. The principal and interest payments on these credit sales were to be deposited into an interest-bearing revolving credit fund account. The fund was to be used to continue short- and medium-term credit to small farmers.

Action Ble did not establish the revolving credit fund. The money that should have been deposited into the fund was used instead for operating expenses which is contrary to the project agreement. Although 175 pumps were distributed to farmers, accounting records for the credit sale of these pumps were not maintained.

The misuse of the revolving credit fund seriously jeopardizes the continuation of the project after AID funding ceases. We believe that USAID/Mali should require the Government of the Republic of Mali to restore the revolving credit fund to its correct balance (page 8).

Need To Establish An Inventory Control System

Over \$1 million in commodities were procured offshore and locally by USAID and Action Ble. Yet Action Ble does not maintain a centralized inventory record system to show the receipt, issuance, and location of these project commodities. We could find no record that Action Ble ever took a physical inventory. In our view, USAID/Mali needs to assist Action Ble in establishing an inventory control system and in performing a physical inventory to determine whether all commodities were received and used for the purposes intended (page 12).

Need To Strengthen Procurement Procedures

Action Ble has awarded contracts valued at MF 118,854,990 (\$286,397) for goods and services without obtaining competitive bids and prior USAID approval as required in the project agreement. USAID/Mali has only reimbursed Action Ble for approximately MF 20,954,900 (\$50,494) of this amount. Reimbursement has been delayed not only because Action Ble failed to meet the competitive procurement requirements but also because the contract costs in some cases were not reasonable.

We question whether Action Ble has the capability to perform project procurement. At a minimum we believe that USAID/Mali must provide detailed procurement guidance to Action Ble (pp 13-14).

Project Commodities Are Not Effectively Utilized

Without mission approval, Action Ble shipped 425 pumps from secure storage in Bamako, the capital of Mali, to the project site at Dire. During our visit to the project site in April 1981, we found 277 pumps lying in an open field without adequate storage or security. We found 25 damaged pumps, but we could not determine if the pumps were damaged in shipment or after arrival at the project site. In our opinion, at least 17 additional pumps were damaged due to exposure to the weather. We also believe that other pumps will require servicing and repair because of weathering damage. In our view, USAID/Mali should require the Government of the Republic of Mali to provide adequate storage for the pumps and also pay any needed repairs resulting from inadequate storage (pp 14-15).

USAID/Mali Project Management Needs Improvement

USAID/Mali's management of the project could be improved. For example, we believe the lack of guidance by USAID/Mali to Action Ble contributed to the project's problems as well as making project monitorship more difficult. The mission recognized the need for such guidance concerning: (1) the reimbursement of operating expenses, and (2) the local procurement of project commodities. But it failed to address the need. We have recommended that USAID/Mali prepare detailed guidance, where appropriate.

In progress reports, a USAID contractor informed the mission of accounting, procurement, and managerial problems with Action Ble at least six months to over one year before the mission took action to address the problems. Another

means of project information--evaluations, as required in the project grant agreement were not performed.

We believe that had USAID/Mali performed its project management functions adequately and in a timely manner, the need to suspend AID funding to the project may have been avoided. USAID/Mali believes that inadequate mission staffing caused these management problems (pp 16-19).

Conclusions and Recommendations

There is little statistical evidence at the present time to indicate that this project has significantly assisted farmers to increase the production of wheat and sorghum. Action Ble, the government organization responsible for assisting the farmers, moreover, has poorly managed the project and improperly used AID funds. Until the deficiencies are resolved, we question whether the project can attain its objectives. Accordingly, the report contains 22 recommendations, listed in Exhibit A, addressing these deficiencies. We believe that these recommendations should be addressed before USAID/Mali lifts the project suspension.

Management Comments

With one exception, USAID/Mali agreed with the recommendations presented to them at the exit conference. They referred to the lack of staffing as a major problem in their ability to monitor projects. They also expressed serious doubts whether the Government of the Republic of Mali will be able to financially support Action Ble in the future. They expect any cost recoveries will be a matter of negotiation on the amount between USAID/Mali and the Malian Government.

BACKGROUND

Introduction

Mali is among the 29 least developed countries in the world with a population of about 6.8 million and a per capita gross national product of approximately \$120. Economic growth in Mali depends largely upon agricultural production. A primary goal of U.S. development assistance is to foster self-sufficiency in cereal production while, at the same time, increasing real income and the quality of lives of the Malian people, especially the rural poor. Approximately 90 percent of Mali's population is rural, and that is where its poorest people live. AID estimates the annual rural per capita income in kind and cash to be between \$50 and \$75.

The cost per hectare to increase cereal production under rainfall conditions is a fraction of the cost required for gravity flow irrigation systems. The potential to increase yields, however, is not as great for rainfed as for irrigated cereal because of the greater vulnerability to the cyclical variations in rainfall. Yet, despite these vulnerabilities, rainfed cereals have received higher priority in Mali, in part, because of the lower capital investment. Capital intensive production systems cannot be justified given the low margins which producers receive for their cereals.

Notwithstanding the high cost per hectare for irrigated crops, AID signed a project grant agreement on July 21, 1978 with the Government of the Republic of Mali (GRM) to provide assistance to approximately 2,400 small farmers to increase the production of wheat and sorghum in Mali's sixth region. The project is administered by Action Ble which is a GRM organization responsible for the development of wheat and other crops within the project area. The project includes:

- assistance in establishing and operating farmer-managed irrigation approaches on a cooperative basis, using irrigation pumps to draw water from the Niger River;
- a program of credit for financing irrigation pumps, small farm implements, and agricultural inputs, including establishment of a revolving credit fund to assure continuation of the small farmer credit program for these purposes;
- improved and expanded extension services to participating farmers by a larger, better trained Action Ble staff and organization;
- preplanting pricing agreements and an assured market for participating farmers to provide incentives for and to encourage wheat production in the region;
- project-related research in agronomic, technological, and environmental areas; and
- development of the managerial capacity and financial base for continuation and possible expansion of the program following the conclusion of this project.

Grain production deficits in Mali's sixth region have been a continual problem. However, the project location at Dire has been identified as an area with significant potential for irrigated crop production. Under the project production system it is anticipated that high yields will be obtained quickly, areas planted will be expanded rapidly and vulnerability to fluctuation in rainfall will be reduced to a minimum. Crop production results should be available in the near future.

Because of GRM problems in meeting Article 4 of the project agreement, "Conditions Precedent to Disbursement," the first disbursement of funds under the grant was delayed over a year until October 1979. USAID/Mali had signed grant agreements with the Government of the Republic of Mali (GRM) to provide \$2.3 million in financial assistance to Project Action Ble. Of this amount, USAID/Mali obligated approximately \$1.7 million and expended approximately \$1.4 million.

The USAID/Mali Controller performed a financial review of Project Action Ble during the period February 2-10, 1981. The results were reported to the Mission Director on February 21, 1981, and subsequently reported to the GRM. The Controller found that Action Ble does not have an adequate system of accounting, and the project has not been managed in an effective manner by both Action Ble and USAID. Sixteen recommendations were made dealing with financial, procurement, and management matters. Our review substantiates and supplements the Controller's report.

On January 15, 1981, USAID/Mali suspended further disbursements under the grant (with some exceptions) because the project was not reaching its goals. At the completion of our review in April 1981, the suspension was still in effect and USAID/Mali had not decided on its future course of action.

Purpose and Scope

In the February 1981 report to the Mission Director, the USAID Controller recommended an audit of the project by the AID Inspector General. This review was undertaken in response to a mission request.

Because of time limitations, the magnitude of the accounting problems encountered, and a lack of travel funds, we were not able to perform a full project review. The financial aspect of this audit was limited to following up on the review performed by the USAID Controller. We did, however, focus on the managerial aspects of the project performed by Action Ble and USAID/Mali. Specifically, the purposes of this audit were to: (1) determine the propriety and reasonableness of local currency expenditures; (2) evaluate Action Ble's internal controls over these expenditures; (3) ascertain the adequacy and reliability of Action Ble's accounting records; (4) identify the causes or nature of any financial irregularities; (5) determine the adequacy of the inventory control system; and (6) determine the effectiveness of USAID's project monitoring.

Our examination included a review of Action Ble's and USAID/Mali's records as well as discussions with Action Ble, USAID/Mali, and French Government officials. Visits were made to selected project sites in Mali.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

SUSPENSION OF A.I.D. FUNDING TO PROJECT ACTION BLE

USAID/Mali suspended disbursement of AID funds to Project Action Ble effective January 15, 1981 because of inadequate project management and inadequate accounting for AID funds by Action Ble personnel. In its letter of suspension to the Mali Ministry of Agriculture, USAID/Mali stipulated that the suspension would remain in effect until:

- "(1) all documents for outstanding obligations incurred have been submitted to USAID Project Manager for review and consideration;
- (2) all financial records, including documentary justification for project expenses submitted in support of the outstanding advances for funds, have been submitted to the USAID Project Manager for review and for consideration of approval;
- (3) accounting and management systems acceptable to USAID have been instituted and implemented appropriately;
- (4) a qualified accountant is assigned to Action Ble to help facilitate the development and maintenance of the accounting system referred to in (3) above for the USAID financed portion of Action Ble."

USAID/Mali justified the suspension based on the following circumstances:

- (1) Major project inputs (gas, motor oil, fertilizers, etc.) did not arrive in advance of the wheat planting season as scheduled. As a result, wheat seeding was delayed which reduced yields. The participating farmers in turn lost confidence in Action Ble's ability to provide inputs in a timely manner.
- (2) During critical periods such as the opening of the wheat season and credit collection time, Action Ble has not decided on the amount that farmers should be charged for their payback of pumps and fuel. Also the issue of delinquent borrowers has not been addressed.
- (3) Salary payments to contract personnel were rarely made on time and late payment of production incentives (primes) to Mali government personnel has led to increasingly low morale of the staff.
- (4) Financial management and the planning of disbursements for recurring expenses were inadequate. Project income from credit repayment has not been accounted for as required in the project grant agreement.
- (5) Action Ble has awarded contracts without prior USAID approval as required in the project grant agreement.
- (6) Delays in requesting reimbursement for operating expense disbursements have resulted in unavailability of operating funds.

At the completion of our work in Mali, the GRM had not satisfied the conditions to lift the suspension nor had USAID/Mali decided on a course of action regarding the project. The USAID, in our view, was justified in suspending the project and requiring corrective actions by the GRM. The issues presented in this report, therefore, should be addressed before USAID/Mali lifts the suspension.

NEED TO CHANGE PROJECT TARGETS

One of the major justifications for suspending the project was the fact that crop yields were reduced because major project inputs did not arrive in advance of the planting season. But even with this and the other management problems, USAID/Mali officials informed us that Action Ble could be achieving its current targets. Information to support this claim was still being accumulated at the completion of our review. However, even after the information is developed, we do not believe that USAID/Mali will be able to compare results with targets because the scheduling of project inputs changed from what was anticipated in the project agreement. The targets for irrigated hectares and cereal yields for the first project season (1979-1980), for example, were based on the installation of 150 irrigation pumps at the start of the season to irrigate 1,240 hectares. Because of GRM delays in meeting Article 4 of the project agreement, "Conditions Precedent to Disbursement," 34 pumps were installed during the middle of the first project season with 150 hectares irrigated. At the start of the second project season (1980-1981), 175 irrigation pumps were installed with the number of hectares irrigated yet to be determined.

Before the project suspension is lifted, we believe that USAID/Mali should reassess the project goals and targets so that future project outputs can be assessed against appropriate data.

Recommendation No. 1

USAID/Mali should issue a Project Implementation Letter to the project agreement which reflects material changes in the inputs, targets, and goals of Project Action Ble.

ACTION BLE ACCOUNTING RECORDS AND PROCEDURES NEED IMPROVEMENT

Improvements are needed in Action Ble's accounting for AID funds. Action Ble's accounting records are not maintained in accordance with sound accounting practices. Nor is the project's accounting system adequate to control the receipt and expenditure of AID funds. As a result, USAID/Mali has no assurance that the funds are used for the purposes intended.

The accounting deficiencies are caused in part by the failure of Action Ble to: (1) develop an adequate accounting system and procedures thereunder, and (2) hire qualified accounting personnel. USAID/Mali's lack of proper financial monitoring, in our opinion, is also responsible for these accounting deficiencies.

Action Ble Accounting Records

In providing local currency to a project, AID requires that the project establish and maintain sufficient books and records to document the use of those funds. Specifically, Section B.5 of the Standard Provisions to the project agreement requires Action Ble to:

"Maintain or cause to be maintained in accordance with generally accepted accounting principles and practices consistently applied books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant."

Through April 1981, Action Ble had received the equivalent of \$476,695 in AID-financed local currencies to defray operating costs. Action Ble submitted reports to USAID/Mali accounting for the expenditure of \$386,346. However, officials of the French Fund for Assistance and Cooperation who are providing technical assistance to Action Ble told us that Action Ble does not have an adequate accounting system. Moreover, based on a financial review of Action Ble, the USAID/Mali Controller in a memorandum to the Mission Director, dated February 11, 1981, made the following statement:

"It is my opinion that no definable system of accounting exists at Action Ble."

In following up on the Controller's review, we agree with this statement based on the following deficiencies which we found:

- Asset, liability, and expense accounts were not maintained.
- Cash receipts and disbursements journals were not complete. Receipts and disbursements were not classified by category.
- Journal entries were not referenced to the supporting vouchers.
- Many vouchers were not supported by vendor receipts.
- Accounting records were not referenced to budget line items.

- Individual transactions were not referenced to expenditure reports submitted to USAID for reimbursement. As a result, we could not determine which expenditures have yet to be submitted to USAID for reimbursement.
- Bank reconciliations were not performed.

The Action Ble accountant was not present at the project site during the USAID Controller's or our review. It is apparent that Action Ble personnel need accounting training. Prior to lifting the project suspension, the USAID/Mali Controller intends that Action Ble personnel receive accounting training from USAID/Mali personnel.

Internal Controls

We found that Action Ble has not established a system of internal controls to prevent improper payments. Nor has action been taken by Action Ble to account for or recover those improper payments brought to its attention.

During his review, the USAID Controller questioned the use of AID funds for several expenditures. Some of these expenditures included:

- Payments of salaries and rentals for expenses incurred prior to the start of USAID funding.
- Office rental payments which were not authorized under the grant agreement.
- Instances of cash being drawn to cover payrolls already recorded as being paid.

During our review the Action Ble Project Director could not adequately explain how these expenditures occurred. As indicated earlier, the project accountant who should be the best source to explain the situation was not available.

In some cases, Action Ble has failed to take action to obtain reimbursement for unauthorized purchases. For example, Action Ble purchased furniture amounting to approximately MF 5,078,640 (\$12,237) for the personal use of Action Ble employees. The Action Ble Project Director told the USAID/Mali Controller that arrangements would be made to recover the costs from each employee. These arrangements have not been made and, in addition, the project has failed to establish a receivable account for their recovery.

Action Ble sold 26 mobylettes and 10 bicycles to its employees and contractors. Although sales contracts have been written, Action Ble has not maintained records on the amounts repaid under these contracts.

Recommendation No. 2

USAID/Mali should require Action Ble to either develop a plan of action for repayment of the mobylettes, bicycles, and furniture or return them to project control. Action Ble should also establish an appropriate receivable account to document the repayments.

Revolving Credit Fund

AID funds provided for the revolving credit fund have not been properly controlled. As a result, accounting records have not been maintained on the loans made and the amounts repaid under those loans. This lack of control has enabled Action Ble to use the revolving credit fund for unauthorized purposes. The misuse of the fund seriously jeopardizes the continuation of the project after AID funding ceases.

The project agreement authorizes Action Ble to provide the participating farmers with credit for financing the purchase of irrigation pumps, farm implements, fuel, lubricants, and fertilizers. Action Ble is required to place the principal and interest payments for these credit sales into a revolving credit fund. The fund will be used for the continuation of short- and medium-term credit to small farmers. All payments for irrigation pumps should be earmarked in the revolving credit fund for use in extending credit for pump rehabilitation or replacement. The project paper specified that the payments to the fund should be deposited to an interest-bearing bank account.

Although 175 pumps were distributed to the farmers, Action Ble did not establish either the revolving credit fund or the bank account. In fact Action Ble could not account for the credit sales. The USAID Controller determined that Action Ble received at least MF 8,330,490 (\$20,049) from credit and other sales during the period April through September 1980. The Action Ble Project Director informed us that the revolving credit fund was not established because the funds were needed and used to meet project operating expenses. This use is a direct violation of the project agreement.

Recommendation No. 3

USAID/Mali, in conjunction with Action Ble, should determine the correct balance of the revolving credit fund.

Recommendation No. 4

USAID/Mali should require the GRM to establish the bank account for the revolving credit fund as required in the project agreement. USAID/Mali should require the GRM to deposit the funds to the bank account in the amount determined by the first review recommended above.

USAID/Mali Financial Monitoring Needs To Be Improved

The extent of the deficiencies discussed above leads us to believe that USAID/Mali's financial monitoring needs to be improved. USAID/Mali agreed with our conclusion and is taking action to correct this situation. For example, in a memorandum dated February 18, 1981 to all USAID Project Managers, the Controller stated that the following procedures will be followed:

- "1. For all USAID projects for which funds have not been disbursed by USAID.
 - A. An initial advance will not be given until a qualified assessment of the project managerial and accounting staff, budget preparation, and accounting and control system has been made by the Controller Office and the system has been accepted.

- B. All requests for advances must include a copy of the approved project budget, a certification by the Project Director of the purpose for which the funds are to be used, and a schedule of dates documentation will be submitted clearing the advance.
- C. The first voucher submitted after the advance has been received will be audited in detail at the accounting office by the Controller Office and the project manager before additional funds, either an additional advance or replenishment of the existing advance, is authorized. The audit will include a review of management and accounting systems, verification of documentation, reconciliation of bank accounts and cash balances, and the establishment of inventory controls, if applicable. The results of this audit will be discussed in detail with both the USAID and GRM management.

2. For on-going projects:

- A. An analysis will be made of the previous dates project advances and replenishments were processed in the Controller Office. Average monthly disbursements based on replenishment vouchers, will be determined and advances adjusted to NTE 60 days cash requirements.
- B. All future advance requests will follow the procedure in 1B above.
- C. Where reviews indicate imprudent management or misuse of USAID funds, the Controller Office will not certify additional cash funds to the project until all discrepancies have been adequately explained to USAID satisfaction and steps have been taken to avoid the same problems in the future."

The Controller indicated that the above procedures will be followed until a standard project accounting system is established which meets all USAID requirements including compatibility with approved Malian systems.

These procedures will require the Controller's Office to take a much more active role in project financial matters. We believe this added involvement is needed. Especially important is the need to assess the adequacy of the project accounting system before funds are advanced.

We also believe that USAID/Mali's financial monitoring should be improved to address the following matters.

- The USAID Controller and USAID Project Officer for Action Ble told us that prior to administratively approving Action Ble's reimbursement vouchers, the former USAID Project Officer reviewed Action Ble's expenditure documents. However, USAID did not make a copy or a listing of these expenditure documents as a means to preclude duplicate payments in subsequent reimbursements.
- Neither USAID/Mali or Action Ble maintained records which traced Action Ble expenditures and USAID/Mali's reimbursement of these expenditures to Action Ble's approved operating expense budget.

Action Ble has been operating without an operating budget approved by USAID since October 1980. Past budgets have lacked sufficient specificity to allow adequate cost monitoring. For example, the Action Ble Project Director stated that he does not understand exactly what he is allowed to purchase out of the operating expense portion of the local currency budget.

In July 1980, USAID/Mali prepared a draft Project Implementation Letter (PIL) for the reimbursement of Action Ble project expenses. This draft, however, was never issued. Subsequently, in March 1981, USAID/Mali prepared a similar draft PIL for the reimbursement of Action Ble project expenses. This letter should address both the reimbursement and operating expense budget issues discussed above. USAID/Mali officials told us that this PIL will be issued prior to lifting the project suspension.

Recommendation No. 5

USAID/Mali should either develop a standard project accounting system or issue mission instructions implementing the procedures in the USAID Controller's February 18, 1981 letter.

Recommendation No. 6

USAID/Mali should issue a Project Implementation Letter for Action Ble to implement the procedures set forth in the USAID Controller's February 18, 1981 letter.

Recommendation No. 7

USAID/Mali, in conjunction with GRM, should revise Action Ble's operating expense budget to identify specific line item expenses.

Recommendation No. 8

USAID/Mali should issue in final a Project Implementation Letter which establishes procedures for the reimbursement of Action Ble expenses.

IS GRM PROVIDING FINANCIAL SUPPORT?

USAID/Mali officials are concerned as to whether the GRM has the financial resources to absorb their share of the project costs. If Action Ble's use of the revolving credit fund for operating expenses is any indicator then these concerns are valid.

The project agreement as amended requires that by September 30, 1980, the GRM provide at least \$257,000 as their contribution to the project. At the completion of our review the USAID Controller was attempting to determine the level of GRM's support. We believe it is essential that this information be considered in any decision to lift the suspension.

NEED TO IMPROVE THE PROCUREMENT OF GOODS AND SERVICES

Action Ble has failed to meet the minimum requirements stated in the project agreement for the local procurement of goods and services. Contracts were awarded without competitive bids and without USAID approval as required in the project agreement. The project has not established an adequate inventory control system and has not maintained inventory records. We found that some AID-financed commodities are not being utilized and some are being utilized for other than project purposes. In our opinion, project commodities will require repair prior to being used for future project needs because of inadequate storage. These deficiencies lead us to believe that Action Ble has not demonstrated the necessary capability to perform project procurement.

Inventory Control

AID has financed the purchase of over \$1 million in commodities procured offshore and locally by USAID/Mali and Action Ble; yet Action Ble does not maintain a centralized inventory record system to show the receipt, issuance, and location of project commodities. The Action Ble Project Director informed us that a physical inventory was performed in December 1980. But he could not provide us with the results of this or any other physical inventory.

Besides the lack of a centralized inventory record system, Action Ble did not always maintain records to determine the inventory status of individual commodities. For example, we located five mechanics' tool kits at the project headquarters but the project had no record of the receipt, issuance, or location of these kits. Project personnel stated that more than five kits were received but the exact number was not known. In another case, Action Ble could not provide us with the receipt documentation or the contract for the purchase of two generators out of operating funds.

The project agreement required that the farmers who purchase the irrigation pumps on credit sign agreements pledging repayment of the loans in kind or cash. Action Ble headquarters maintained the agreements for the pumps issued to farmers located in the immediate headquarters area. We were told that the remaining agreements were held at the other two project sites. With the exception of these agreements, the project maintained no commodity location documents.

The Action Ble Project Director acknowledged that the project needs to develop an inventory control system.

Recommendation No. 9

USAID/Mali should assist the Action Ble project in developing an inventory control system including the training of project personnel where appropriate.

Recommendation No. 10

USAID/Mali, in conjunction with Government of Mali, should conduct a physical inventory of all project commodities. The mission should also require Action Ble to report inventory status to USAID/Mali on a periodic basis.

Commodity Procurement

Action Ble could not provide us with all the AID-financed contracts they entered into for the purchase of goods and services. So far as we could determine, Action Ble has awarded contracts valued at MF 118,854,990 (\$286,397) without obtaining: (1) competitive bids, and (2) prior USAID approval as required in the project agreement. USAID/Mali has reimbursed Action Ble for approximately MF 20,954,990 (\$50,494) of this amount. USAID/Mali has refused to reimburse Action Ble for the remaining portion not only because Action Ble failed to obtain competitive bids and prior USAID approval but also because, in some cases, the contract costs were not reasonable.

One case involved a contract Action Ble awarded in June 1980 for the shipment of 100 irrigation pumps from Bamako, the capital of Mali, to the project site at Dire. We understand the former USAID Project Officer gave oral approval for shipment of the 100 pumps. However, the contract was never submitted to USAID for approval prior to the award. Action Ble also did not solicit any bids for this work. Apparently, with Action Ble approval, the contractor claims to have shipped 425 instead of 100 pumps in 48 truck shipments. We could only find receipt documentation for 46 truck shipments. The Action Ble Project Director claimed that USAID/Mali approved the shipment of all 425 pumps in its discussions with the GRM Ministry of Agriculture. We could not substantiate this claim. At the completion of our review, neither Action Ble nor the contractor provided USAID/Mali with a copy of the contract for the shipment of the remaining 325 pumps.

Action Ble is claiming reimbursement for the shipment of all 425 pumps based on contract stipulations applicable to the shipment of the 100 pumps. According to the contract, each 12 ton truck shipment is billed at a flat rate of MF 1.5 million (\$3,610). The contract, however, makes no provision as to how many pumps should be shipped per truck. As a result, some trucks shipped as few as 8 pumps while others shipped as many as 16. If 16 is any gauge, then the 425 pumps could have been shipped in 32 instead of 48 trips.

Action Ble has paid the contractor MF 23.4 million (\$56,317) under this contract against the possible total cost of MF 72 million (\$173,285). By paying for 48 instead of 32 shipments, Action Ble could pay excess costs amounting to MF 24 million (\$57,761).

Shipping documents for the pumps indicate that 31 pumps were damaged upon receipt at the project site. Action Ble has not submitted a claim for any damage due to shipping, although the pumps were received by August 1980.

Another case involved a contract awarded in January 1980 for the construction of 10 boats. The contract specified that Action Ble pay MF 14 million (\$33,694) as an advance for this purchase. The contract, however, was silent on the total cost of the construction. Action Ble has paid MF 21.9 million (\$52,707) on this contract. As in the shipment of the pumps, Action Ble did not solicit any bids for this boat purchase and the contract was not submitted to USAID/Mali for prior approval.

The Action Ble Project Director could not provide us adequate answers as to why Action Ble did not follow procurement requirements as stated in the project

agreement. He stated that Action Ble procured commodities and services at the prevailing rates. He also did not see the need for USAID approval for items purchased with local currency. The Project Director, in effect, believed that the purchase of major commodities should be handled the same as any other purchase out of operating expenses. However, the project agreement makes a distinction in the use of local currency for operating expenses and commodity purchases.

In July 1980, USAID/Mali prepared a draft Project Implementation Letter (PIL) setting forth conditions for the local procurement of project commodities under Project Action Ble. This PIL was never issued. However, based on the problems discussed in this section of the report, we believe, as a minimum, that USAID/Mali should provide Action Ble with detailed procurement guidance including handbooks, procurement plans, and procurement schedules.

The magnitude of Action Ble's procurement problems also raises a question as to whether Action Ble has the capability to handle procurement matters. We believe USAID/Mali should address this question.

Recommendation No. 11

USAID/Mali should provide Action Ble with a guidebook in French on project procurement. The guidebook should fully explain USAID procurement requirements and Action Ble's responsibilities thereunder. The USAID contract approval process should be fully explained.

Recommendation No. 12

USAID/Mali, in conjunction with Action Ble, should develop a procurement plan which provides the description, quantity, funding source (operating expense, local currency, offshore), procurement agent, and procurement schedule for the purchase of future project commodities. This plan should be incorporated into a Project Implementation Letter to permit enforcement.

Recommendation No. 13

USAID/Mali should assess the Government of Mali's capability to assume procurement responsibilities under Project Action Ble.

Commodity Utilization

AID-financed commodities were not being effectively used and in some cases were subject to deterioration because of inadequate storage. Some commodities were purchased without project authorization. In these cases, procurement decisions were not always made in conjunction with project need.

For example, the major commodity procurement for the project was the purchase of 500 irrigation pumps at a cost of \$624,000. During our visit to the project site in April 1981, we noted that 277 of these pumps were stored in an open field adjacent to the project headquarters since August 1980. Because of the lack of security, the pumps were susceptible to theft and vandalism. At least 25 pumps were damaged, but we could not determine if the pumps were damaged in

shipment or subsequent to arrival at the project site. In our opinion, 17 of the 277 pumps incurred some damage (seal corrosion, worn gaskets, etc.) from weathering. We could not determine the extent of this damage. Besides these 17 pumps, we believe other pumps will require servicing and repair because of weathering damage. A technician or mechanic will have to make this decision.

Action Ble shipped the pumps without USAID approval from secure storage in Bamako. The Action Ble Project Director stated that the Ministry of Agriculture decided to ship the pumps from Bamako.

In another case Action Ble purchased two generators for project use. The project headquarters, however, was without electrical power while one generator was sitting idle at another project location and the other generator was being used at the Project Director's residence.

Action Ble purchased household furniture for approximately MF 5 million (\$12,237). The furniture was provided to Action Ble employees for their own personal use. These furniture purchases were not authorized by the project agreement.

Recommendation No. 14

USAID/Mali as a condition for lifting the project suspension should require that the GRM immediately provide adequate storage facilities for the pumps.

Recommendation No. 15

USAID/Mali, in conjunction with GRM, should determine the physical condition of all the irrigation pumps which have not been issued to farmers. USAID/Mali should request that the GRM pay for: (1) any needed repairs resulting from inadequate storage and (2) any technical assistance required from the pump manufacturer.

Recommendation No. 16

USAID/Mali should not release project commodities to Action Ble until USAID determines that the commodities can be utilized.

Recommendation No. 17

USAID/Mali should ensure that Action Ble furnish generators to provide electrical power to the project headquarters office.

USAID/MALI PROJECT MANAGEMENT NEEDS IMPROVEMENT

USAID/Mali's project management of Action Ble could be improved. We found that USAID/Mali identified problem areas with Action Ble but failed to take corrective action in a timely manner. Evaluations, as prescribed in the project grant agreement, were not performed. Also, USAID/Mali failed to provide adequate guidance to Action Ble. We believe that had USAID/Mali performed its project management functions better, the need to suspend AID funding to the project may have been avoided. USAID/Mali believes that inadequate staffing caused these management problems.

Under its project management system, AID oversees and monitors all aspects of an AID-financed activity from the initial idea through its design, approval, funding, implementation, and evaluation. AID assigns project monitoring responsibilities to the Project Officer. AID's "Project Officers' Guidebook" provides the following description of effective project management.

"Varying with the scope and complexity of a project, effective project management generally relies upon a number of managerially accepted oversight methods and mechanisms. These include, for example, approval of prescribed activities of the assistance recipient, liaison with the intermediaries involved, progress reporting, problem identification, site visits, and approval of disbursements."

In reviewing Project Action Ble, we found that USAID/Mali has not performed these responsibilities in an effective manner.

Progress Reports

USAID/Mali received either monthly or bi-monthly progress reports on Action Ble activities from the Project Site Coordinator who was employed by USAID/Mali under a personal services contract. As early as January 1980, these progress reports consistently noted significant accounting, procurement, and managerial problems in Action Ble's project execution. The January 1980 report listed problems such as lack of pump maintenance, inadequate operating expenses, non-payment of salaries, inadequate management by Action Ble personnel, and lack of timely procurement. Although the progress reports were distributed throughout USAID/Mali, we were unable to locate anything in the mission records to indicate that prompt actions had been taken to address the reported problems. In fact, the lack of an adequate project accounting system was not addressed until February 1981, after project funds were suspended.

In several progress reports the Project Site Coordinator stated that Action Ble personnel disregarded many suggestions he made to improve project operations. A representative from the French Fund for Assistance and Cooperation made the same comment about his own suggestions.

The Action Ble Project Director stated that other than a difference of opinion he could not explain why he and others did not accept the Project Site Coordinator's suggestions. He stated that he did not understand the exact duties of the USAID Project Site Coordinator. To a certain extent this is a valid point. The project agreement states:

"A project analyst, to work directly under the supervision of the Action Ble Director, will live in Dire to assist, as needed, in the overall management of the project."

However, according to his contract, the Project Site Coordinator was working directly for both the USAID Project Manager and the Action Ble Project Director. Besides providing management and implementation assistance on planning, procurement, research design, management information systems, etc., the Project Site Coordinator's duties included:

- Serving as the primary liaison between USAID/Bamako and Action Ble Dire;
- Assisting in all facets of project implementation, identifying constraints and making recommendations for solutions; and
- Performing other duties or activities as may be requested by the Director of Action Ble or the USAID Project Manager.

Based on these duties, the Project Site Coordinator was serving Action Ble in an advisory, operational, and liaison capacity. In all these duties his authority to act for USAID/Mali was not enumerated. To avoid any misunderstanding, we believe that USAID/Mali, in employing a Project Site Coordinator, should specifically state these authorities. In view of Action Ble's managerial problems, we believe the Project Site Coordinator could be best used in a USAID project management function as opposed to providing assistance to or liaison with Action Ble.

Recommendation No. 18

USAID/Mali should develop procedures to assure that problems identified by USAID personnel are promptly and properly addressed and any actions taken made part of the official USAID record.

Recommendation No. 19

In any future contracts, USAID/Mali should specifically state the authority of the Project Site Coordinator to act on behalf of USAID/Mali in dealings with Project Action Ble.

Evaluations

The project agreement specifies that evaluations should be conducted every six months. As yet, the mission has not formulated plans to conduct the initial project evaluation. USAID/Mali planned to perform an internal study of the project in early May. This study would not qualify as a project evaluation because it was not scheduled to include GRM participation. USAID/Mali officials told us that they do not believe it is feasible to conduct a project evaluation every six months with the mission's current staffing. We believe that the project evaluations, if performed as required, would have brought the seriousness of the project problems to the attention of both GRM and USAID/Mali personnel sooner than what occurred. USAID/Mali would then have been forced to take corrective action earlier than what occurred.

Recommendation No. 20

USAID/Mali should arrange for a project evaluation immediately and perform future project evaluations in accordance with the project agreement.

Financial Monitoring

USAID/Mali's financial monitoring of Project Action Ble and other projects should be improved with the increased project responsibilities of the USAID/Mali Controller. The USAID Project Officer has the major responsibility for monitoring project activities including administrative approval of vouchers under the grant agreement. In this role, the Project Officer should bring any indication of financial and accounting problems in a project's activities to the attention of the USAID/Mali Controller in a timely manner. We could find no evidence that this was done for Project Action Ble.

Procurement Authority

The USAID Management Officer has the responsibility for project procurement up to \$25,000. Yet, the former Project Officer gave procurement approval to Action Ble even though such approval was not within his authority. To complicate the situation, some of these approvals were made orally instead of in writing.

The former Project Officer made an oral agreement with Action Ble for the purchase of goods and services such as: (1) the shipment of 100 irrigation pumps from Bamako to the project site in Dire, and (2) the purchase of 10 boats to transport project commodities. However, the official files at USAID/Mali do not contain sufficient information to determine the specific agreement between USAID/Mali and Action Ble. As a result, Action Ble shipped 425 instead of 100 pumps. They also awarded open-ended contracts which did not specify a fixed price for the boats and did not establish the number of truck shipments for delivery of the pumps. Action Ble did not submit the contracts to USAID/Mali for approval before awarding the contracts as required in the project agreement. Prior approval is USAID's principal means of control to prevent such occurrences. Oral agreements can lead to misunderstandings such as occurred in this project and thereby erode USAID control.

The USAID/Mali Management Office is considering the establishment of a policy statement on the individual procurement responsibilities of the various USAID/Mali offices. We believe that this policy statement is needed.

Recommendation No. 21

USAID/Mali should emphasize to its project managers the importance of putting agreements with the Government of Mali into writing.

Recommendation No. 22

USAID/Mali should develop a procurement policy statement which delineates the procurement responsibilities of the Project Office, Management Office, and other USAID/Mali offices.

Project Guidance

We believe the lack of guidance by USAID/Mali to Action Ble contributed to the project's problems as well as making project monitorship more difficult. In some cases, USAID/Mali recognized the need for project guidance but failed to address the need. For example, as discussed earlier, USAID/Mali prepared Project Implementation Letters in July 1980 regarding: (1) the reimbursement of operating expenses, and (2) the local procurement of project commodities. We were unable to determine why these letters were not issued.

Section 7.2 of the project agreement concerning the "Disbursement for Local Currency Costs," states the following:

"After satisfaction of conditions precedent, the Grantee may obtain disbursement of funds under the Grant for Local Currency Costs required for the project in accordance with the terms of this Agreement, by submitting to AID with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs."

Section 7.1 of the project agreement addresses the need for a similar Project Implementation Letter for the "Disbursement for Foreign Exchange Costs." USAID/Mali has yet to issue either Project Implementation Letter.

As a result of his financial review, the USAID Controller concluded in a February 21, 1981 memorandum to the Mission Director that:

"The most striking aspect of the management of this project is that there are no letters of implementation of substance. Other official USAID correspondence are noticeable for their lack of guidance."

We believe that the issues in this report show that the need for detailed project guidance still exists. We have recommended, where appropriate, that USAID/Mali prepare such guidance. The guidance should clear up any misunderstanding as to what Action Ble should do. Also the guidance should provide USAID/Mali personnel with the means to determine that Action Ble is doing what is required.

MANAGEMENT COMMENTS

With one exception, USAID/Mali agreed with the recommendations presented to them at the exit conference. With the project under suspension, they did not believe a joint project evaluation with the GRM would be beneficial. USAID/Mali also did not believe that project evaluations every six months are feasible with the mission's current staffing.

USAID/Mali referred to the lack of staffing as a major problem in its ability to monitor projects. The USAID does not expect any staff increases in the immediate future.

USAID/Mali also has serious doubts whether the GRM will be able to financially support Action Ble or other USAID/Mali projects in the future. They expect any cost recoveries such as for the establishment of the revolving credit fund will be a matter of negotiation on the amount between USAID/Mali and the GRM.

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Assistant Administrator/AFR	5
USAID/Mali	5
AFR/SWA	1
AFR/EMS	1
Assistant Administrator/LEG	1
General Counsel	1
Controller, FM	1
DS/DIU/DI	4
AAA/AFR/PMR	1
REDSO/WA	1
PPC/E	1
Inspector General	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Latin America	1
RIG/A/Karachi	1
RIG/A/Nairobi	1
RIG/A/Abidjan	1
IG/PPP	1
IG/II	1
IG/II/AFR	1