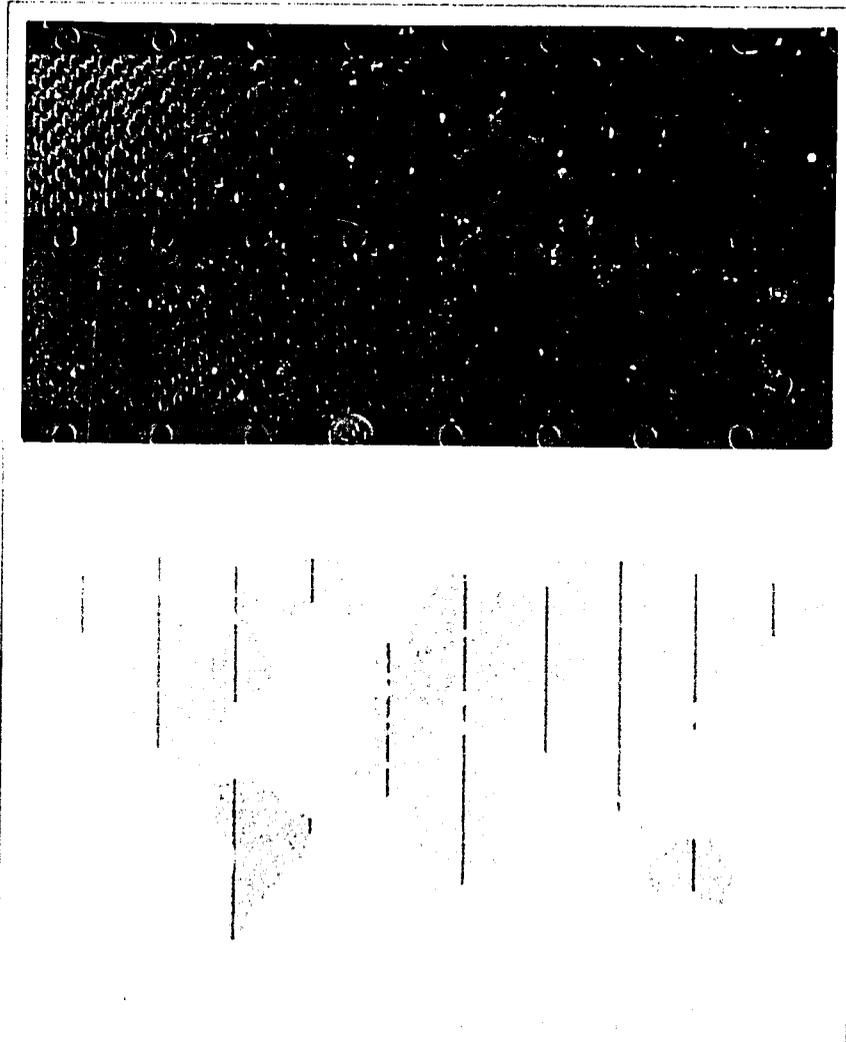


THE
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Regional Inspector General for Audit
KARACHI

AUDIT REPORT
ON
CID AGRICULTURAL DEVELOPMENT
SUPPORT PROGRAM IN YEMEN
AUDIT REPORT NO. 5-279-83-4
JANUARY 30, 1983

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AUDIT REPORT
ON
CID AGRICULTURAL DEVELOPMENT SUPPORT
PROGRAM IN YEMEN

EXECUTIVE SUMMARY

Introduction

A program of modernization and revitalization for Yemen's agricultural sector is being supported by a USAID grant to the Yemen Arab Republic Government (YARG). Signed on June 14, 1979, the grant commitment totaled \$15,215,000 as of September 30, 1982. Program goals are to increase income and improve the quality of life for rural inhabitants through increased agricultural production, natural resource conservation, and improved performance of the YARG in planning and implementing its agricultural program.

The U.S. commitment is being provided through the Consortium for International Development (CID). A cooperative of western colleges and universities, CID is represented on this project by Oregon State University (OSU) for the Core subproject and New Mexico State University (NMSU) for the Ibb Secondary Agricultural Institute (ISAI) subproject. Two contracts totaling about \$7 million, as amended, but with an estimated value of about \$33 million had been awarded to CID as of September 30, 1982.

Purpose and Scope of Audit

The purpose of this audit was to evaluate the adequacy of documentation in support of \$2,575,400 of local currency costs applied against advances to CID from project inception to June 30, 1982. We also assessed the internal controls adopted by CID to ensure the accountability of funds provided to it by USAID/Yemen. In performing the audit, we reviewed financial and project files and interviewed and discussed our findings with responsible CID and USAID officials in Yemen.

We limited our review to local currency costs supported by documentation available in Yemen. The documentation in support of costs charged to the dollar budget is maintained at OSU in Oregon, NMSU in New Mexico, and CID headquarters in Tucson, Arizona.

Local Currency Costs

Of the costs applied against the contractor's local currency advances, 17 percent were not supported in accordance with accepted accounting practices. While the percentage is significant, much of the unsupported costs, including 69 percent of all costs questioned, were applicable to the early days of the Core subproject. This 6-month period ending on April 30, 1981 was a time when the contractor's recordkeeping was very poor.

Fully 45 percent of the costs questioned were the result of the contractor being unable to provide supporting documentation of expenditures for our review. Other examples of questioned costs were advances treated as expenses, missing invoices or receipts, recordkeeping errors, and unauthorized payments. All costs suspended were for lack of internal control over cash payments for payroll and travel.

Lack of Internal Control Over Project Costs

While some internal control problems were identified at the ISAI subproject, the more serious problems were found at the Core subproject. Costs questioned and suspended for Core were 24.5 percent of the \$1.8 million applied against the contractor's advance compared to 0.8 percent and \$0.8 million, respectively for ISAI. Generally speaking, no accounting procedures existed for the first six months of the Core subproject; however, the contractor has recently been in the process of putting controls in place that were previously missing or inadequate.

Internal control problems were found in managing cash, accounting for advances, reimbursing for salaries and travel, and using project equipment. Cash up to \$10,000 was being transported to and maintained unsecured at a station manager's house at one project location, and these funds were being provided to the station without accounting for prior advances. Other advances, unsupported by adequate documentation such as invoices or receipts, were being treated as expenses. Cash payments were made to employees for salaries and travel without obtaining signatures or other evidence that the employees had received the payments. Also, personal use of vehicles and communications equipment was being paid from project funds because the contractor did not have adequate policies and procedures for identification and reimbursement.

Commodity Arrival Accounting Is Poor

Controls over the shipping and receiving of commodities procured for the Core subproject are not adequate to ensure that AID funding is being utilized effectively. Insufficient information is flowing from the purchaser, OSU, to the Core subproject for subproject personnel to know what has been ordered or shipped. Similarly, subproject personnel have not been systematically advising OSU on what commodities have been received. In effect, the parties to the existing system are operating in the dark.

Project Workplans Not Prepared

Life of program, life of subproject and annual workplans required by project agreements have either not been prepared or their approval has been delayed to the extent that their usefulness is questionable. Contractor personnel were having difficulty preparing workplans that were acceptable to AID personnel. USAID officials accepted some of the workplans submitted, but AID/Washington later rejected them for lack of sufficient content and unacceptable format. Contractor officials admitted that some of the problems were of their own doing but believed that better guidance could have been provided by AID personnel.

Non-Compliance With Grant Terms by Grantee

The YARG has not complied with certain terms and conditions of the AID grant, and USAID/Yemen does not intend to pursue compliance with the grantee. The YARG has not complied with a condition precedent to disbursement of funds under the grant to acquire 30 to 40 hectares of land for the ISAI. Two years have passed since USAID/Yemen temporarily waived this condition precedent. Also, housing for the long-term Core staff was to be provided as part of the grantee's contribution, but it was not.

The USAID position is that these grant conditions were incorrectly written into the grant in the first place. Mission officials are of the opinion that the YARG requirement to fund contractor housing should not have been included in the grant and that the condition precedent should have been included as a YARG goal. The Director plans to request that an AID legal counselor visit Yemen and rewrite the condition precedent into a workable goal and eliminate other grant conditions as appropriate.

Conclusions, Recommendations and Management Comments

The report details the results of our evaluation of local currency costs claimed and applied against advances to the contractor. The exhibits to

this report show the extent that costs claimed were accepted or the reasons for questioning them as appropriate. This report also identifies improvements needed in the contractor's internal controls over USAID provided funding and the need for better accountability of commodity purchases. To this end we made recommendations to the Director where appropriate.

USAID/Yemen provided written comments on our draft report. Mission officials agreed with our conclusions and their comments were utilized in the preparation of this report.

BACKGROUND

In June 1979 AID initiated a program of modernization and revitalization for the Yemen Arab Republic's agricultural sector. Program goals were to increase income and improve the quality of life for rural inhabitants through increased agricultural production, natural resource conservation, and improved performance of the Yemen Arab Republic Government (YARG) in planning and implementing its agricultural program. A sub-goal of the program is to improve the capacity of the YARG and Yemeni agricultural producers to develop and sustain an agricultural sector which effectively and efficiently uses Yemeni natural resources, is integrated into the economy, and is supportive of broad based and equitable social and economic development.

The initial agricultural development support grant between the YARG and USAID mission was signed on June 14, 1979. Through amendment 12, dated April 25, 1982, the U.S. funding commitment totaled \$15,215,000. The grant agreement called for the U.S. commitment to be provided through the Consortium for International Development (CID). Contracts with CID were awarded on April 23, 1979 and July 10, 1980. The initial contract, AID/NE-C-1613, totaled \$1,116,601 and has been completed. Contract AID/NE-C-1698 through amendment 3 showed estimated contract costs totaling \$31,837,300, of which \$6,000,000 had been allotted.

CID is a cooperative of western colleges and universities with its headquarters in Tucson, Arizona. To date this Title XII project has been operated primarily by Oregon State University (OSU) and New Mexico State University (NMSU) with technical assistance provided by other colleges and universities in the consortium.

The overall agricultural development support project is expected to involve several subprojects covering a broad spectrum of technical assistance activities with each subproject designed in collaboration with AID and the YARG. OSU, which provides overall guidance and management for the project, is responsible for the Core subproject. Core subproject goals are to develop the institutional capability of the YARG; establish a documentation and learning center; perform agricultural sector analyses; identify and prioritize other subprojects for approval; and provide technical, logistical and administrative support to other subprojects. NMSU is responsible for the 166 Secondary Agricultural Institute (ISAI) subproject. NMSU will staff the agricultural specialty positions at the institute, develop the educational curriculum, and advise and assist in the administration of the ISAI.

Purpose and Scope of Audit

The purpose of this audit was to evaluate the adequacy of documentation in support of \$2,575,400 of local currency costs applied against advances to CID from project inception to June 30, 1982. We also reviewed the internal controls adopted by CID to ensure the accountability of funds provided to it by USAID/Yemen.

We limited our review to local currency costs supported by documentation available in Yemen. The documentation in support of costs charged to the dollar budget is maintained at CID headquarters in Tucson, Arizona; OSU in Corvallis, Oregon; and NMSU in Las Cruces, New Mexico.

In performing the audit, we reviewed financial and project files and interviewed responsible CID and USAID officials in Yemen. The audit was performed in accordance with generally accepted auditing standards including such tests of records and procedures as was considered necessary in the circumstances.

AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Local Currency Costs

The results of our review of local currency costs from project inception through June 30, 1982 show that 17 percent of costs applied against the contractor's advances were not supported in accordance with accepted accounting practices.

Costs fully supported	\$2,134,750
Costs suspended for inadequate support	364,889
Costs not supported and questioned	<u>75,767</u>
Total applied to advances	<u><u>\$2,575,406</u></u>

As detailed in Exhibit A, 69 percent of questioned costs relate to the Core subproject period November 1, 1980 through April 30, 1981. The recordkeeping for the subproject was very poor during this period. Ledgers and journals detailing the contractor's accumulation of costs and supporting the public vouchers submitted to the USAID were not maintained. The contractor had to reorganize the available documentation for this period and prepare summary records prior to our audit. Even with this effort, CID personnel were unable to document for review \$34,159 of expenditures for this period. Total questioned costs were \$52,393 or almost 16 percent of the total claimed for the period. That compares with about 1 percent of costs questioned for all other elements of local currency costs for this project.

Besides costs that were not documented for review, examples of questioned expenditures included

- advances treated as expenses,
- errors in recording costs in general ledgers and in transferring costs from ledgers to public vouchers,
- incorrectly computed travel reimbursements,
- missing invoices or receipts,
- unauthorized payments for another project,
- payment for unaccompanied baggage exceeding authorized limits, and
- entertainment expenses.

Exhibits B through D contain details of the questioned costs.

All costs suspended were for lack of internal control over cash payments for payroll and travel. While salaries for regular employees and part-time laborers were paid in cash, contractor records did not always reflect that these payments had been received by the identified recipient. Similarly, travel reimbursements were paid in cash but in some cases were not evidenced as having been received by the traveler. Most of these payments were to regular employees; therefore, it can be assumed that these employees would not continue to work unless they were receiving their salaries and travel reimbursements. However, we believe these amounts should not be accepted for application against the contractor's advances until the mission assures itself that adequate controls over cash disbursements have been adopted by the contractor.

Recommendation No. 1

The Director, USAID/Yemen should review and settle the questioned and unresolved costs presented in Exhibits B through D and summarized in Exhibit A to this report.

Lack of Internal Control Over Project Costs

While the ISAI subproject has had some internal control problems, the amounts in question have been minor compared to the more serious problems identified at the Core subproject. In quantified terms costs questioned and suspended for Core amounted to 24.5 percent of the \$1.8 million applied against the contractor's advance compared to 0.8 percent and \$0.8 million, respectively for ISAI. Granted the more serious problems occurred in the early days of the Core subproject and the contractor has recently been in the process of putting controls in place that were previously missing or inadequate.

Accounting Procedures

Generally speaking, no accounting procedures existed for the first six months of the Core subproject. The method of cost payments and receipts was described by the current Core management as a "shoe box operation," in which cash and receipts were kept and from where disbursements were made. The CID headquarters Secretary/Treasurer and an accountant from a CID project in Egypt came to Yemen prior to our review and reconstructed the records from this period as best they could.

Since May 1981 the Core subproject has maintained a general journal, ledgers and supporting vouchers which are adequate for recordkeeping and review. The ISAI subproject maintains similar records as those

found at Core. Most disbursements are paid in cash as is the custom in Yemen and cancelled checks are not returned by the banks. This places a heavy burden on the accounting function at both subprojects to maintain adequate documentation in support of disbursements.

Cash Management

The physical security for the large amounts of cash needed to be kept on hand is adequate at both Core and ISAI. Both have substantial safes; the one at ISAI being quite imposing. The situation regarding the control of cash maintained at the Jarouba station is quite a different matter. Prior to our review, cash amounts larger than \$10,000 were being transported regularly to Jarouba from Sanaa by car (at least a half-day drive) and maintained unsecured at the station director's house. This was occurring despite the fact that a bank account had been opened for this purpose in a nearby town. At the time of our review the CID chief of party was unaware that the bank account established for the Jarouba station was not being utilized. He assured us that it would be utilized in the future and that he would look into whether monies could be transferred to the station account by bank transfer or check.

Another problem regarding the transfer of funds to the Jarouba station was that advances were being made without requiring accountability for prior advances. During our review, CID officials decided that the station would be financed in the future through an imprest fund, with reimbursement being made to the fund on presentation of documentation supporting prior expenditures. We agree that this is the best method to employ under the circumstances.

Recommendation No. 2

The Director, USAID/Yemen should ensure that:
(1) funds transferred to the Jarouba station are being adequately safeguarded, (2) the most secure method available for the transfer of funds to the station has been adopted, and (3) an imprest fund for the control of advances to the station has been established.

Expensing of Advances

Costs questioned because advances were being treated as expenses totaled about \$13,300 or 17.6 percent of all costs questioned. The individual occurrences did not appear to be related and were apparently not the result of any deficiency in the contractor's accounting procedures. Therefore, human error or ignorance of the need for adequate documentation of expenses seems to have been the cause.

Personal Use of Contractor Equipment

Control over the personal use of project vehicles and communication equipment has been poor. Until about April 1982 there was practically no effort made by the contractor to obtain reimbursement for use of project vehicles and telex equipment from its employees at the Core subproject. This was due mainly to the fact that the CID policy on the use of vehicles had not been effectively implemented prior to that time. Also, no policy on the use of telex equipment existed at the time of our review although an informal procedure for identifying personal messages and requesting reimbursement from employees was in use.

Recently, efforts have been made to collect some of the monies owed; however, these efforts have not been systematic or particularly effective. A brief review of vehicle use documents and telex logs and invoices indicates that numerous instances of personal vehicle use and messages sent have gone unreimbursed by the responsible employees. Some of the telex charges are in fact owed by USAID employees. The CID chief of party advised us that he had recognized this as a problem in the spring of 1982 and believed that adequate policies and procedures had been adopted at that time. He further stated that he would soon have a policy and procedures for reimbursement for personal use of telex developed.

At the ISAI subproject no written policy on the personal use of vehicles exists although employees have contributed funds toward the purchase of gasoline for shopping trips to town. These funds have not been used to offset vehicle operation expenses, and as a result expenses vouchered to the mission have been overstated by the amount contributed by the employees. The team leader at the ISAI subproject stated that he had not realized that these funds should be offset against project expenses but said he would begin offsetting them on future vouchers and establish a written policy for vehicle use.

The ISAI subproject was also in the process of obtaining overseas telephone service which could result in another internal control problem related to personal use. The team leader, however, assured us that an adequate policy and procedures for reimbursement would be established for personal use of overseas telephone service.

Recommendation No. 3

The Director, USAID/Yemen should: (1) assure himself that CID has established adequate policies and reimbursement procedures for the personal use of vehicles, telex, and overseas telephone service and (2) based upon his review and verification of a CID provided analysis of personal use of project vehicles and communication equipment, determine the extent that unallowable costs have been applied against the contractor's advances and make the necessary disallowances.

Salaries and Travel

The lack of contractor internal controls over cash payments for salaries and travel reimbursements was discussed earlier under the report caption "Local Currency Costs". While most of the suspended salary payments for regular employees involve expenditures prior to January 1982, suspended payments for part-time laborers and travel reimbursements are considered current as well as past problems. Both the CID chief of party and the ISAI subproject team leader said it was their policy to have signatures or marks as evidence for all cash payments to individuals. Since the contractor's policy is adequate, its procedures and controls must be improved in order to assure that the policy is complied with systematically.

Recommendation No. 4

The Director, USAID/Yemen should assure that CID procedures and controls are improved to the extent that cash payments to individuals are systematically signed for or marked by the recipients.

The Cost of Vacant Housing

Housing expense for this project exceeded that which would have resulted from more careful planning to control costs. Project funds amounting to \$89,448 have been spent for the leasing of vacant houses. For five houses this amounted to a total vacancy of about 3.7 years. Some houses were not occupied because employees did not arrive on schedule or did not arrive at all. Another reason for the vacancies was that USAID requested CID to participate with the mission in leasing apartments in a new housing complex. This request came after CID had binding leases for the houses. CID agreed to participate with the mission, and vacancies occurred in the leased houses when employees moved to the new apartments.

While the contractor's decisions on the leasing of housing were unnecessarily costly to the project, they were made, at least in part, with the knowledge and concurrence of the mission. The costs are allowable under the terms and conditions of the contract; therefore, no recommendation is made.

Need for a Local Accountant

Many of the difficulties experienced by the contractor in controlling project costs may have been mitigated or eliminated had the contractor filled key positions with qualified personnel. In September 1982 CID hired an administrative officer who has an accounting background. This is a positive step in providing sound financial management to the project; however, this job entails more than the accounting function. He needs an assistant with an accounting background and Arabic skills who can handle the daily financial transactions. The YARG has decided that this position would be filled by a Yemeni, but CID has had difficulty finding one who is qualified for the job.

At the time of our review, CID was in the process of advertising for an accountant. If CID is not successful in obtaining the services of a qualified local accountant, it may be necessary for the mission to assist the contractor in obtaining permission from the YARG to hire a non-Yemeni accountant.

Recommendation No. 5

The Director, USAID/Yemen should assure himself that CID has hired a qualified accountant with Arabic capability or intercede with the YARG on the contractor's behalf if it becomes necessary to fill the position with a non-Yemeni.

Commodity Arrival Accounting Is Poor

The system established to control the shipment and receipt of commodities procured for the Core subproject is not adequate. OSU is responsible for most of the estimated \$1.2 million of commodity procurement for Core. Insufficient information is flowing from OSU to the Core subproject for subproject personnel to know what has been ordered or shipped. Similarly, subproject personnel have not been systematically advising OSU on what commodities they have received. In effect, the people participating in the existing system are operating in the dark.

OSU purchases supplies and equipment in the United States and ships them to Yemen. OSU has not been providing copies of purchase orders

or otherwise advising project personnel of the purchases and has not been sending or assuring that suppliers are sending adequate advice of shipments to the project. Frequently, the only paperwork received on a shipment is a packing list which describes commodities in terms of "one box" or "one carton" of an item like spare parts or some other commodity. Sometimes, a shipment is received with no paperwork provided at all.

On the other hand, Core personnel are not providing advice to OSU on the receipt of commodities. OSU once sent an inventory list of commodities to Core for verification and numerous discrepancies were noted. This was the only formal effort made to reconcile the shipment and receipt of items sent from the United States. Likewise, project personnel are not advising OSU on the extent that commodities are damaged in transit so that OSU can follow-up on potential insurance claims. This has not been much of a problem to date due to the relatively minor amounts of commodities received damaged.

When OSU does not provide advice of purchase or shipment to Core, how are project personnel suppose to know if they are getting the items purchased and sent by OSU and in the proper quantities? When Core does not acknowledge receipt of the items sent, how do OSU personnel assure themselves that the items sent ever got to Yemen and the Core subproject? The answer is obvious; they do not.

Conclusion and Recommendation

We consider the contractor's commodity arrival accounting system for the Core subproject to be inadequate and lacking in controls necessary to ensure that AID funding is being utilized effectively. Considering the extent of the problem and the magnitude of AID funds involved, we recommended in our draft report that all AID funding for procurement at OSU be suspended until adequate safeguards are adopted. The USAID response recommended that our report recommendation give the contractor 90 days beyond the issuance of our final report to adopt an adequate commodity arrival accounting system. We concur with the mission recommendation.

Recommendation No. 6

The Director, USAID/Yemen should: (1) take action to assure that, within 90 days of the issuance of this report, the contractor has adopted an adequate commodity arrival accounting system or (2) suspend AID funding provided to OSU for project commodity procurement until such time as an adequate commodity arrival accounting system has been adopted.

Project Workplans Not Prepared

Life of program, life of subproject, and annual workplans have either not been prepared or their approval has been delayed to the extent that their usefulness is questionable. Amendment 3, dated June 19, 1981, to Contract AID/NE-C-1698 requires the contractor to submit annual subproject workplans at the time of annual program reviews, a life of subproject workplan within three months of the contract amendment approving the subproject, and a life of program workplan as part of the Core subproject at an unspecified time.

By mid-October 1982 annual workplans for the Core and ISAI subprojects for the period May 1, 1982 through April 30, 1983 had still not been approved. The Core subproject annual workplan was designed also to serve as the life of subproject workplan that was due to be submitted by September 19, 1981. A life of subproject workplan for the ISAI subproject, due on October 10, 1980, has not been approved and a life of program workplan for the project has not yet been submitted.

Contractor officials stated that they have had considerable difficulty preparing workplans that were acceptable to AID personnel, particularly those from AID/Washington. They admit that some of the problems are of their own doing but believe that better guidance could have been provided to them by AID. USAID officials stated that some of the workplans submitted by the contractor were acceptable to them but were rejected by AID/Washington because they lacked certain data and because of the way the data was presented. Both contractor and USAID officials agreed that the life of program workplan was delayed because an agriculture sector team evaluation was in process and that the results of that evaluation would likely influence the content of the workplan.

Recommendation No. 7

The Director, USAID/Yemen with the concurrence of AID/Washington should establish revised deadlines for the submission and approval of annual and life of subproject workplans and the life of program workplan and provide the contractor with approved guidance as to the information required and the format to be used.

Non-compliance with Grant Terms by Grantee

The YARGI has not complied with certain terms and conditions of the AID grant and the mission has made little effort to obtain compliance

by the grantee. The YARG has not complied with a condition precedent to disbursement of funds under the grant and has failed to provide other financial inputs required under the terms of the grant. The mission position is that these terms and conditions were not necessary in the first place and should not have been part of the grant agreement.

Grant amendment number 1, dated September 29, 1979, included conditions precedent to initial disbursement of AID funds. In part, these conditions required that the YARG take action to acquire 30 to 50 hectares of land for use by the ISAI. USAID, on June 29, 1980, issued Project Implementation Letter Number 5 which waived temporarily satisfaction of this condition precedent by the grantee. Although more than two years have passed since this temporary waiver was granted, the condition precedent has still not been satisfied.

Grant amendment number 3, dated August 31, 1980, provides that YARG inputs to the project will include salaries for the counterparts to the Core staff and funds for the cost of housing the long-term Core staff. The chief of party counterpart receives one salary from the YARG and another from the contractor. While CID is not precluded from paying this employee by the terms of its contract, the grant agreement clearly implies that this is the responsibility of the YARG. USAID officials advised us, however, that YARG salaries are not adequate for a chief of party counterpart position and that it is a fact of life in Yemen that additional compensation must be paid to get good people. The chief of party counterpart told us that Yemen does provide housing for some foreign-financed projects, but not of a quality in which U.S. personnel would be willing to live.

Generally, the USAID position on these grant conditions is that they were incorrectly written into the grant agreement in the first place. USAID officials stated that the requirement for the YARG to fund contractor housing should not have been put in the grant agreement. They also stated that the condition precedent should have been more appropriately included in the grant as a YARG input goal. They are of the opinion that the ISAI has functioned adequately without the additional land, which effectively neutralizes any argument that not satisfying the condition precedent would endanger the success of the subproject. The ISAI team leader concurs that the students' education was not hampered because of the lack of land but believes their practical application of concepts learned in class would have been enhanced had they had more land for various of demonstration projects. Also, much of the subproject land would have been used for raising animal feed which would have reduced the cost of purchasing feed and thus reduced school operating costs.

The mission director told us that he does not intend to pursue compliance with the YARG on these conditions as they are presently included in the grant. Instead, he plans to request that an AID legal counselor visit Yemen and rewrite the condition precedent into a workable goal and eliminate those conditions he views as unnecessary or inappropriate.

Recommendation No. 8

The Director, USAID/Yemen should either seek YARG compliance with those conditions of the grant agreement not being complied with or initiate action to have undesirable conditions removed from the grant, as appropriate.

EXHIBIT A

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Summary of Local Currency Costs Evaluated
For The Period July 11, 1980 Through June 30, 1982

	Costs Applied to <u>Advances</u>	<u>Costs (in Rials)</u>			<u>Reference</u>
		<u>Accepted</u>	<u>Ques- tioned</u>	<u>Sus- pended</u>	
<u>Core Subproject</u>					
11/ 1/80 - 4/30/81	1,512,032	1,090,204	238,387	183,441	Exhibit B
5/ 1/81 - 6/30/82	<u>6,548,006</u>	<u>4,994,021</u>	<u>90,602</u>	<u>1,463,583</u>	Exhibit C
Core Total	<u>8,060,038</u>	<u>6,084,225</u>	<u>328,989</u>	<u>1,646,824</u>	
<u>ISAI Subproject</u>					
7/11/80 - 6/30/82	2,016,754	1,987,582	15,751	13,421	Exhibit D
Special Fund	<u>1,641,304</u>	<u>1,641,304</u>	<u>-0-</u>	<u>-0-</u>	Exhibit E
ISAI Total	<u>3,658,058</u>	<u>3,628,886</u>	<u>15,751</u>	<u>13,421</u>	
Total Core and ISAI	<u>11,718,096</u>	<u>9,713,111</u>	<u>344,740</u>	<u>1,660,245</u>	
Totals in Dollars*	<u>2,575,406</u>	<u>2,134,750</u>	<u>75,767</u>	<u>364,889</u>	

* @ 4.55 Rials = \$1.00

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Evaluation of Core Subproject Costs
For The Period November 1, 1980 Through April 30, 1981

<u>Description</u>		<u>Costs (in Rials)</u>			
		<u>Reviewed</u>	<u>Accepted</u>	<u>Questioned</u>	<u>Suspended</u>
Salaries	YR	216,953	40,772		176,181 <u>h/</u>
Part-time labor		41,374	39,036		2,338 <u>i/</u>
Travel		101,866	67,180	29,764 <u>a/</u>	4,922 <u>j/</u>
Transportation		56,745	21,754	34,991 <u>b/</u>	
Per diem		8,362	8,567	(205) <u>c/</u>	
Communications		11,392	11,392		
House and office rental		566,500	566,500		
Furniture and equipment		107,651	107,651		
Remodeling		81,219	81,219		
Emergency fees		15,227	15,227		
Vehicle operation		40,269	40,269		
Utilities		23,723	23,723		
Office supplies		33,263	33,263		
Office expenses		11,569	2,434	9,135 <u>d/</u>	
Tools		6,672	6,672		
Legal fees		2,220	2,220		
Newspaper ads		3,455	3,455		
Used cars		9,100	9,100		
Participant advances		9,200		9,200 <u>e/</u>	
Miscellaneous		9,865	9,770	95 <u>f/</u>	
Costs documented for review		YR 1,356,625	1,090,204	82,980	183,441
Costs not documented		155,407		155,407 <u>g/</u>	
Cost applicable to advances		YR <u>1,512,032</u>	<u>1,090,204</u>	<u>238,387</u>	<u>183,441</u>

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Explanatory Notes:

- a. The YR 29,764 includes YR 24,823 paid to a travel agency for airfare of two employees of project 030 and their dependents. While one USAID official told us that he believed the contractor had been directed by USAID to pay these costs, the Mission Director and Controller stated that, to their knowledge, no such direction was given. No authorization was on file with the contractor or was made available by USAID officials to validate this payment. The remaining YR 4,941 questioned was a charge identified as travel but not supported by any documentary evidence.
- b. This is the cost of packing and shipping from Yemen to the United States the personal belongings of the two nonproject employees identified in note a, above. All shipments were via air freight and both employees exceeded the 450 pound weight allowance for an employee with one dependent (801 lbs. and 1,142 lbs.). No authorization was on file at the contractor or USAID to validate this payment.
- c. This credit to questioned costs is the result of a YR 360 error by the contractor in documenting a valid charge for review as YR 2,597.50 instead of the correct amount of YR 2,957.50 reduced by a YR 155 charge which was not supported by any documentary evidence.
- d. This is the cost of a dinner and cocktail party held at a local hotel on 3/10/51. No justification for this expenditure as a valid business expense was on file, and the cost is, therefore, considered as an entertainment expense and not allowable under the terms of the contract.
- e. This cost is the real equivalent of dollar advances provided to eight participants departing for training in the United States. These advances should have been charged to and accounted for under the dollar budget. Instead, the advances were treated as expenses without supporting documentation.

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1598

Explanatory Notes: (Continued)

- f. The costs questioned were the result of errors in recording miscellaneous expense vouchers. One voucher for YR 4,076 was incorrectly recorded as YR 4,201 while another for YR 1,496 was incorrectly recorded as YR 1,466. The YR 125 overstatement of expenses reduced by the YR 30 understatement results in a net costs questioned of YR 95.
- g. The questioned costs are the difference between the total of vouchers submitted by the contractor to USAID during the period and the total of costs the contractor was able to document for review after reconstructing the records for this period.
- h. Salaries for the period 2/18/81 through 4/28/81 are suspended for lack of internal controls over these cash disbursements. No evidence was on file that salary payments to employees were received.
- i. Two payments for part-time labor were suspended on the same basis as the salary costs described in note h. The payments were YR 1,463 on 2/24/81 and YR 875 on 4/5/81.
- j. This is the cost of an employee's trip from Sanaa to Seattle via Paris and New York which commenced on 3/25/81. The Sanaa to Paris portion of the trip was on a foreign carrier even though a connection to an American carrier was available at several locations closer to Sanaa. Contractor and USAID officials believe that either approval for individual flight routings have been obtained by the contractor or that the contractor has been allowed to comply with USAID approved routings, which would allow a change to an American carrier at Paris. However, at the time of our review, no approvals from AID had been found and the cost is considered unallowable and not in compliance with contract provisions.

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Evaluation of Core Subproject Costs
For the Period May 1, 1981 Through June 30, 1982

<u>Description</u>	<u>Amount Applied to Advances</u>	<u>Costs (in Rials)</u>		
		<u>Accepted</u>	<u>Questioned</u>	<u>Suspended</u>
Payroll	YR 2,209,255	827,672	3,325 a/	1,378,258 h/
Office expense	888,545	861,473	27,072 b/	
Motor pool/warehouse	496,289	492,374	3,915 c/	
Housing expense	1,390,385	1,378,351	12,034 d/	
Travel and per diem	205,925	119,620	1,180 e/	85,125 i/
English language training	350	350		
Arabic language training	3,400	3,400		
Pre-subproject activity	522,818	480,461	42,357 f/	
Subproject activity	819,338	819,338		
Participant training	11,700	11,700		
Unclassified		(719)	719 g/	
	YR <u>6,548,005</u>	<u>4,994,020</u>	<u>90,602</u>	<u>1,463,383</u>

Explanatory Notes:

- a. These costs were questioned instead of suspended as described in note h. below because no recipient was identified as having received these cash payments. The suspended payroll amounts were the result of inadequate internal control of cash payments while these amounts are undocumented cash payments.

YR 1,934	Paid on 6/15/82 by voucher #1018
900	Paid on 5/27/82 by voucher # 995
491	Paid on 9/22/81 by petty cash voucher #22
<u>YR 3,325</u>	<u>Payroll costs questioned</u>

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Explanatory Notes: Continued

- b. Costs claimed as office expense were questioned for various reasons as follows:

- YR 3,253 An adjustment to the general ledger for February 1982 involving several office expense and horticulture extension and training pre-subproject activity accounts was erroneously recorded. As a result, the office equipment account was increased by the questioned amount without a corresponding reduction to a complementary pre-subproject activity account. No documentation was presented to justify an increase in allowable expenditures.
- 520 A general ledger adjustment for January 1982 was erroneously recorded. This adjustment also involved the office expense and horticulture extension and training pre-subproject activity accounts. An increase to the processing commodities expense account in the questioned amount was not offset by a decrease to a corresponding pre-subproject activity account. No documentation was presented to justify an increase in allowable expenditures.
- 18,037 This represents the unauthorized portion of an employee's airshipment of household goods to Oregon which was paid for on 4/19/82. For an employee and one dependent 450 lbs. is authorized for unaccompanied baggage. This employee was allowed to ship 1,433 lbs. at a cost of YR 23,058. While both USAID and contractor officials believe that AID permission for this shipment had been granted, no evidence of this could be located.

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Explanatory No. Continued

YR 1,518 The cost of a newspaper advertisement paid for on 2/27/82 was not documented by invoice or receipt. Other newspaper advertisements were evidenced by invoices or receipts.

642 A telephone bill paid on 9/13/81 was missing from the files.

3,102 This expenditure on 7/25/81 was not documented and its purpose could not be determined.

YR 27,072 Office expenditures questioned

c. Questioned costs were for the erroneous recording of one expenditure and missing documentation for the others.

YR 150 Transportation charges paid on 4/29/82 were not supported by invoice or receipt.

3,000 Payment for licenses on 11/3/81 were not supported by invoice or receipt.

705 A payment for insurance on 6/3/81 was not supported by invoice or receipt and the policy could not be found.

60 A contract payment on 5/16/81 for YR 38,518 was erroneously recorded and claimed as YR 38,578.

3,915 Motor pool/warehouse costs questioned

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Explanatory Notes: Continued

- d. All costs questioned were for lack of documentary evidence supporting payments for utilities as follows:

<u>Amount</u>	<u>Date Paid</u>	<u>Utility</u>
YR 2,047	4/19/82	Unknown
2,048	1/25/82	Water
1,200	1/ 4/82	Water
4,095	10/27/81	Water
2,047	5/24/81	Water
<u>YR 11,437</u>		

597 Paid electric bill of YR 1,172 with check for Yr 1,769 on 4/29/82. The balance of the payment was not documented.

YR 12,034 Housing expense questioned

- e. Questioned costs are for travel charges not supported by invoices or receipts as follows:

<u>Amount</u>	<u>Date Paid</u>
YR 180	5/16/82
500	5/12/82
500	4/11/82
<u>YR 1,180</u>	Travel and per diem questioned

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMER

CONTRACT NO. NE-C-1698

Explanatory Notes: Continued

- f. The costs were questioned because advances were treated as expenses and a payment was made for per diem without supporting documentation.

YR 1,049 This amount was paid on 3/29/82 to one employee on the basis of a note to the file that another employee had been paid this amount for per diem. No voucher, receipts, or evidence that either employee actually received this cash payment was on file.

9,292 This amount was reimbursed to operating cash on 10/20/81 and identified as being for FAPU. No other documentary evidence was on file in support of this payment.

32,016 A check was cashed on 7/15/81 and identified as being a cash travel advance for FAPU. Since no other documentary evidence was on file, this cash advance was apparently treated as an expense.

YR 42,357 Questioned pre-subproject activity

- g. This represents the difference between a charge booked and claimed as YR 13,300 and the supporting purchase order in the amount of YR 12,637. Related receipts and invoices totaled YR 12,637, the amount of the purchase order.
- h. Payroll charges from May through December 1981 and part-time labor as detailed below are suspended for lack of internal controls over cash payments. Payroll documents for these charges do not provide evidence that the employees received their pay.

	<u>Amount</u>	<u>Voucher Number</u> (PC - petty cash)	<u>Date</u>
YR	9,475	1072	6/29/82
	10,400	1023	6/15/82

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. AFD-C-1698

	<u>Amount</u>	<u>Voucher Number</u> (PC - petty cash)	<u>Date</u>
YR	1,496	1010	5/31/82
	2,959	982	5/20/82
	2,600	980	5/20/82
	2,959	940	5/12/82
	2,220	953	5/12/82
	2,555	951	5/12/82
	600	950	5/12/82
	3,403	949	5/12/82
	1,900	903	4/29/82
	1,590	888	4/1/82
	2,959	871	3/26/82
	1,935	PC 40	1/19/82
	1,247	PC 38	12/29/81
	760	PC 37	12/19/81
	25,765	PC 35	12/14/81
	10,950	PC 33	11/10/81
	600	PC 29	10/31/81
	906	PC 27	10/31/81
	18,866	PC 28	10/17/81
	2,959	PC 24	10/15/81
	1,384	PC 16	8/16/81
	4,689	PC 15	8/9/81
	1,972	PC 14	7/29/81
	686	PC 12	7/19/81
	<u>2,477</u>	272	5/30/81
YR	120,312	Part-time labor	
	<u>1,257,946</u>	5/81 - 12/81 Payroll	
YR	1,378,258	Payroll and part-time labor suspended	

- i. The following travel and per diem expenses were suspended for lack of evidence that the travelers received their reimbursements:

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMENCONTRACT NO. NF-C-1598

	<u>Amount</u>	<u>Voucher Number</u> (PC - petty cash)	<u>Date</u>
YR	2,020	1071	6/29/82
	1,435	1026	6/15/82
	406	973	5/20/82
	2,604	905	4/29/82
	1,371	904	4/29/82
	1,037	899	4/29/82
	4,270	872	3/28/82
	5,494	PC 42	1/31/82
	86	PC 41	1/31/82
	9,225	PC 36	1/ 9/82
	6,802	PC 38	12/29/81
	5,214	PC 37	12/19/81
	9,314	PC 34	11/30/81
	1,053	PC 32	11/24/81
	2,457	PC 33	11/10/81
	3,602	PC 31	11/ 8/81
	420	PC 30	11/ 7/81
	7,887	PC 27	10/31/81
	91	PC 26	10/31/81
	2,981	PC 25	10/24/81
	2,730	PC 28	10/17/81
	321	PC 23	9/30/81
	2,397	PC 22	9/22/81
	1,271	PC 20	9/13/81
	1,415	PC 21	9/ 3/81
	1,470	PC 13	7/25/81
	1,215	PC 12	7/18/81
	610	PC 11	7/12/81
	<u>5,927</u>	PC 10	7/ 5/81
YR	<u>85,125</u>	Travel and per diem suspended	

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Evaluation of ISAI Subproject Costs
For The Period July 11, 1980 Through June 30, 1982

<u>Description</u>		<u>Amount</u> <u>Applied to</u> <u>Advances</u>	<u>Costs (in Riials)</u>		
			<u>Accepted</u>	<u>Ques-</u> <u>tioned</u>	<u>Sus -</u> <u>ended</u>
Payroll	YR	854,998	824,199		10,799 <u>e/</u>
Communications		8,722	8,722		
Supplies		127,707	121,827	5,880 <u>a/</u>	
Equipment		106,174	106,174		
Utilities		209,082	209,082		
House rent/maintenance		257,558	254,378	3,180 <u>b/</u>	
Per diem		280,504	277,151	731 <u>c/</u>	2,622 <u>f/</u>
Vehicle operations		145,621	145,621		
Transportation		21,558	21,558		
Miscellaneous		24,830	18,870	5,960 <u>d/</u>	
Totals	YR	<u>2,016,754</u>	<u>1,987,582</u>	<u>15,751</u>	<u>13,421</u>

Explanatory Notes:

- Of the YR 5,880 questioned, YR 5,000 was for an advance to an employee on 7/1/81 that was treated as an expense. The remaining YR 880 was paid to petty cash on 7/12/81. There was no invoices or receipts on file for either of these payments.
- The costs questioned were for errors in transferring costs recorded as incurred for house rent/maintenance in the contractor's general ledger to the public vouchers submitted to USAID. An amount recorded as YR 7,750 was claimed as YR 7,935 on the contractor's April 1981 voucher submission and another recorded as YR 1,125 was claimed as YR 4,425 in August 1981. The result was an overstatement of expenses of YR 130 and YR 3,000 respectively.

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Explanatory Notes: Continued

- c. These costs were questioned because employees received reimbursements inconsistent with contractor and AID procedures for computing per diem. The contractor's policy was to reimburse employees up to one-half the allowable per diem for lodging when receipts were submitted and one-half the per diem for meals and other expenses divided into 4 daily quarters. Each of the following payments appears to have been erroneously computed:

- YR 314 An employee was reimbursed on 5/5/82 for three nights lodging in Sanaa but hotel receipt shows that only two nights lodging was paid. One-half the Sanaa per diem rate for one day is questioned.
- 314 Employee was reimbursed on 10/26/81 for three nights lodging in Sanaa which included the day of his return to Ibb. The hotel receipt verifies that the employee paid only two nights lodging. One-half the Sanaa per diem rate for one day is questioned.
- 103 An employee was reimbursed YR 206 of a daily rate of YR 275 on the date of his return to Ibb. No hotel was claimed or paid by the employee for that day. For three-fourths day's allowance for meals the employee should have been reimbursed YR 103. The balance of YR 103 is questioned.

YR 731 Per diem questioned

- d. Of the YR 5,960, YR 960 was questioned because a petty cash reimbursement on 5/15/82 was not supported by invoices or receipts. The balance of YR 5,000 was two YR 2,500 advances to petty cash on 7/13/81 and 11/8/80 that were treated by the contractor as expenses. No invoices or receipts were on file in support of these advances.

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Explanatory Notes: Continued

- e. Payroll costs were suspended for lack of evidence that the identified recipients actually received their pay. While it was the customary practice at ISAI to have employees sign for their pay, the following cash payments were not evidenced by employees' signature or marital

	<u>Amount</u>	<u>Voucher Number</u>	<u>Date</u>
YR	2,355	527	6/30/82
	2,092	526	6/30/82
	2,132	517	6/22/82
	2,090	431	3/24/82
	1,024	399	2/24/82
	165	217	7/29/81
	180	187	7/ 5/81
	266	186	7/ 1/81
	495	170	6/29/81
	<u>10,799</u>		

- f. Per diem expenses were suspended for lack of evidence that the travelers received their reimbursements. Except for the following cash payments, vouchers generally indicated receipt of reimbursement by the traveler.

	<u>Amount</u>	<u>Voucher Number</u>	<u>Date</u>
YR	1,384	317	12/ 6/81
	602	230	9/20/81
	636	210	7/23/81
	<u>2,622</u>		

EXHIBIT E

CID AGRICULTURAL DEVELOPMENT SUPPORT
PROJECT IN YEMEN

CONTRACT NO. NE-C-1698

Evaluation of ISAI Special Fund Costs
Through June 30, 1982

	Amount Applied to <u>Advances</u>	<u>Costs Accepted</u> <u>(in Riials)</u>
SCOLA <u>a/</u> YR	169,778	169,778
SMA <u>b/</u>	77,285	77,285
Construction <u>c/</u>	<u>1,394,241</u>	<u>1,394,241</u>
Totals: YR	<u><u>1,641,304</u></u>	<u><u>1,641,304</u></u>

Explanatory Notes:

- a. SCOLA - Special Cost of Living Allowance
- b. SMA - Separate Maintenance Allowance
- c. Includes YR 4,400 for transportation

LIST OF RECOMMENDATIONS

	<u>Page No.</u>
<u>Recommendation No. 1</u>	
The Director, USAID/Yemen should review and settle the questioned and unresolved costs presented in Exhibits B through D and summarized in Exhibit A to this report.	4
<u>Recommendation No. 2</u>	
The Director, USAID/Yemen should ensure that: (1) funds transferred to the Jarouba station are being adequately safeguarded, (2) the most secure method available for the transfer of funds to the station has been adopted, and (3) an imprest fund for the control of advances to the station has been established.	5
<u>Recommendation No. 3</u>	
The Director, USAID/Yemen should: (1) assure himself that CID has established adequate policies and reimbursement procedures for the personal use of vehicles, telex, and overseas telephone service and (2) based upon his review and verification of a CID provided analysis of personal use of project vehicles and communication equipment, determine the extent that unallowable costs have been applied against the contractor's advances and make the necessary disallowances.	7
<u>Recommendation No. 4</u>	
The Director, USAID/Yemen should assure that CID procedures and controls are improved to the extent that cash payments to individuals are systematically signed for or marked by the recipients.	7
<u>Recommendation No. 5</u>	
The Director, USAID/Yemen should assure himself that CID has hired a qualified accountant with Arabic capability or intercede with the YARG on the contractor's behalf if it becomes necessary to fill the position with a non-Yemeni.	8

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 6

The Director, USAID/Yemen should: (1) take action to assure that, within 30 days of the issuance of this report, the contractor has adopted an adequate commodity arrival accounting system or (2) suspend AID funding provided to OSU for project commodity procurement until such time as an adequate commodity arrival accounting system has been adopted.

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Recommendation No. 7

The Director, USAID/Yemen with the concurrence of AID/Washington should establish revised guidelines for the submission and approval of annual and life of subproject work plans and the life of program workplan and provide the contractor with approved guidance as to the information required and the format to be used.

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Recommendation No. 8

The Director, USAID/Yemen should either seek YARGI compliance with those conditions of the grant agreement not being complied with or initiate action to have undesirable conditions removed from the grant, as appropriate.

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LIST OF REPORT RECIPIENTS

<u>USAID/Yemen</u>	
Director	5
<u>AID/W</u>	
Assistant Administrator (AA/NE)	2
Office of Near Eastern/North African Affairs (NE/NENA)	1
Audit Liaison Officer	1
Bureau For Science and Technology	
Office of Development Information and Utilization (S&T/DIU)	1
Bureau For Program and Policy Coordination	
Office of Evaluation (PPC/E)	1
Bureau For Management	
Assistant to the Administrator For Management (AA/M)	1
Office of Financial Management (M/FM/ASD)	1
Directorate For Program and Management Services	
Office of Management Operations (M/SER/MO)	1
Office of Contract Management (M/SER/CM)	1
Bureau For External Relations	
Office of Legislative Affairs (EXRL/LEG)	1
Office of General Counsel (GC)	1
Office of Public Affairs	1
Office of Inspector General:	
Inspector General (IG)	1
Communications and Records Office (IG/EMS/C&R)	12
Policy, Plans and Programs (IG/PPP)	1
Regional Inspector General For Audit:	
RIG/A/W	1
RIG/A/Nairobi	1
RIG/A/Manila	1
RIG/A/Carro	1
RIG/A/Latin America	1
<u>Other</u>	
RIG/II/Larachi	1
New Delhi Residency, RIG/A/K (AAP)	1