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AUDIT OF
USAID/SWAZILAND COMPLIANCE WITH
AID PAYMENT VERIFICATION
POLICY STATEMENTS

AUDIT REPORT NO. 3-645-87-12
MAY 29, 1987

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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May 29, 1987

MEMORANDUM FOR USAID Director/Swaziland, Robert G. Huesmann

Richard C. Thabet
FROM: RIG/A/N, Richard C. Thabet

SUBJECT: Audit of USAID/Swaziland Compliance with AID Payment
Verification Policy Statements

This report presents the results of audit of USAID/Swaziland (USAID/S) compliance with AID payment verification policy statements. Please provide written notice within 30 days of any additional information related to action planned or taken to implement the report recommendations. We appreciate the cooperation and courtesy extended our staff during the audit.

Background

In April 1982, the AID Administrator named a task force of AID senior officials to review the Agency's payment process. This action responded to congressional concern and audits conducted by AID's Inspector General and the General Accounting Office. The task force produced 16 policy statements on (a) methods of project implementation and financing, (b) verification, auditing and monitoring procedures, and (c) other procedures contributing to accountability. The Bureau for Management sent implementing guidance to the field on December 30, 1983.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Nairobi made a compliance audit at USAID/S. This included South Africa and Mozambique to the extent that Swaziland has controllership responsibility for these two Missions. Accordingly, responsibility for implementation of AID's payment verification policy statements was vested with USAID/S. The objective of the audit was to determine if USAID/S complied with the policy statements. Our examination of internal controls was limited to the extent discussed in the report relative to compliance with the policy statements. This audit was part of a worldwide effort led by the Inspector General's Office of Programs and Systems Audits (IG/PSA). Information obtained in Swaziland also may be reported on by IG/PSA.

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Mission officials were interviewed and project files were examined. Three projects were selected to test compliance with the policy statements. Compliance was also tested by examining a selective sample of fiscal year 1984, 1985 and 1986 vouchers and supporting documents. The audit included a review of general assessment reports sent to AID/W for calendar years 1983, 1984, 1985 and fiscal year 1986. The audit was conducted in January 1987 and was made in accordance with generally accepted government auditing standards.

Results of Audit

USAID/S fully complied with three and partially complied with five AID payment verification policy statements. USAID/S was in non-compliance on two policy statements. The remaining six statements did not require USAID/S action.

While USAID/S had not adequately complied with two of the policy statements, and only partially complied with five, they were using the preferred methods of financing. Also, the USAID/S controller had concurred on the implementation and financing aspects as required on all new projects. In addition, USAID/S had successfully used Fixed Amount Reimbursement (FAR) for a non-construction project.

Nonetheless, areas of non-compliance identified during the audit constitute material internal control weaknesses. Therefore, we recommended that USAID/S prepare procedures for its staff to better comply with the policy statements and provide additional manpower resources where necessary.

USAID/S Had Not Adequately Complied With Payment Verification Policy Statements - To improve USAID internal control systems, AID issued 16 payment verification policy statements. USAID/S fully complied with three policy statements and partially complied with five. USAID/S was in non-compliance with two. This occurred because the Mission had not developed procedures or instructions to assure full compliance and implementation of the policy statements nor did they have adequate personnel resources to fully implement the policies. Lack of full compliance increased Mission vulnerability to mismanagement and abuse of project funds.

Discussion - USAID/S compliance was required on 10 of the 16 policy statements contained in Exhibit 1. The remaining six statements called for action by AID/W and/or addressed issues not applicable to USAID/S. USAID/S fully complied with three policy statements and partially complied with five. USAID/S was in non-compliance with two.

The following sections discuss USAID/S's non-compliance with seven policy statements. Exhibit 1 lists all 16 policy statements.

A. Policy Statements 5 and 9: Assessing Host Country Contracting Capability - Where host country contracting was proposed, policy statements required USAID/Missions to realistically assess the ability of the prospective agency to (a) advertise, award and negotiate contracts, (b) monitor implementation, (c) examine invoices, and (d) audit. The assessments were to be reported annually to AID/W and were to be part of project papers. Such assessments were also to be performed as a prerequisite for providing grants to indigenous private voluntary organizations (PVO's).

No assessments had been performed of host country contracting or indigenous PVO's. The only host country contracting was in Mozambique but no assessment had been performed of the contracting agency's ability to (a) advertise, award and negotiate contracts, (b) monitor contract implementation, (c) examine invoices and (d) audit contract records and reports. Furthermore, in South Africa, there had been no assessment of procedures and controls for indigenous PVO's. This was especially significant in view of the fact that approximately \$13 million had been obligated to approximately 27 indigenous PVOs. In addition, approximately another \$5 million had been obligated to other indigenous PVOs which we could not readily determine the number involved. This was primarily in the human rights area. Furthermore, there were three indigenous PVOs in Swaziland for which no assessment had been performed. According to the controller, two of the three were AID/W approved for financing.

B. Policy Statement 8: Assessing Voucher Examination and Approval Procedures - Mission controllers were responsible for assessing annually USAID voucher examination and voucher approval procedures. The assessment was to indicate the adequacy of supporting documents submitted with contractor invoices and the ability of project officers and authorized certifying officers to relate contractor performance with contractor invoices. The assessment was to include an examination of randomly selected vouchers. Areas of concern to the controller as well as procedures that indicated high vulnerability were to be highlighted. Missions were to report the assessment results annually to AID/W.

The assessments submitted were brief descriptions of the vouchering and paying processes and not assessments per se as required by policy statement 8. No flowcharts of the vouchering and paying processes accompanied the assessments so

that points brought out by the assessments could be related to the actual flow of documents and procedures. Also, areas of special concern as well as procedures which indicate relatively high vulnerability were not addressed by the assessments.

None of the reports (a) described the sample of vouchers on which the assessments were based nor (b) disclosed problems identified, or corrective actions proposed or taken in relation to the vouchers. There were no workpapers at USAID/S supporting any of their annual assessments of voucher examination and approval procedures. In addition, the annual reports did not assess project and certifying officer ability to relate contractor performance with contractor invoices. In response to the draft report, the Mission stated that the controller was the certifying officer and personally reviewed and signed every voucher submitted for payment. Consequently, it was the Mission's opinion that an assessment and sample of vouchers would result in a duplication.

An audit of a sample of 25 vouchers, totalling \$352,310 from fiscal years 1984, 1985, 1986 and 1987 disclosed no discrepancies with regard to support. However, in no case was the administrative approval attached to the vouchers. Mission personnel were of the opinion that the checklist replaced the need for the administrative approval even though implementing guidelines dated December 30, 1983 specifically stated that the checklist was not to be used as a substitute for the project officer approval statement, but merely as a certifying addendum. Furthermore, we noted 15 instances where the checklists were not attached. In another four cases, they were not filled out properly. For example, the checklist was signed but information required such as the number of times visited the project site, meetings with counterparts, etc. was left blank with no explanation.

In discussions with controller personnel and project officers it was obvious that clarification regarding the administrative approval process was needed. In response to the draft report, the Mission expressed concern that agency guidelines were not clear as to use of the project officer checklist. While we agree with this concern, the matter was subsequently clarified in the form of a worldwide cable State 111726 dated April 14, 1987.

Another matter coming to our attention during our review of vouchers was that a number of advances had exceeded the accountability date. Some of the advances had been outstanding for over two years. As of December 31, 1986, there were 142 advances outstanding totalling approximately \$1.0 million.

According to the controller, he was aware of the problem but did not have the personnel resources to effectively deal with it.

C. Policy Statement 15: Assessments of arrival accounting systems should be included in all Commodity Import Program (CIP) approval documents. All USAID/Missions with existing or planned CIPs should evaluate host country arrival accounting as part of the overall evaluation and for inclusion in Program Assistance Approval Documents (PAADs) requesting future CIP authorizations. If missions cannot positively attest to the adequacy of the host country system, they must provide a satisfactory alternative.

The only CIP under the controller in Swaziland was the program in Mozambique. Total disbursements under the fiscal year 1984 and 1985 programs were approximately \$13 million. The project officer responsible for the program in Mozambique stated that the commodity arrival accounting system for the program had not been evaluated. The reason being that she needed more specific guidance in this area.

According to the USAID/Swaziland controller, the above situations existed because of a complete lack of experienced staff in the controller's office brought on by increased responsibilities. In May 1986, accounting responsibilities and records were transferred from the Regional Finance Management Center (RFMC) Nairobi to USAID/Swaziland for Swaziland, South Africa and Mozambique. However, the staffing of the controller's office did not change in accordance with the increased responsibilities. While controller staff has increased from four to eleven, the controller does not believe that it is enough. He stated that the entire staff is overworked and regularly behind even though overtime is worked. In a letter to the controller, AID/W dated September 15, 1986, the USAID/Swaziland controller stated that the financial management operations were highly vulnerable and the possibility for serious problems in the future were probable. He concluded in the area of financial analysis that next to nothing was being done due to personnel shortages. While the audit scope did not include a full staffing analysis, the controller's position appears to have merit.

The problem is compounded further by the fact that very little has been done to comply with Payment Verification Policy Statement 10 which encourages USAID controllers to utilize the services of competent public accounting firms to a greater degree in providing accounting, and financial management services as well as auditing. According to the controller, the Missions had yet to contract for audits but one firm had been

used for financial services on a project in South Africa. Both the controller and USAID Director in Swaziland indicated support for the concept of using independent accounting firms.

In addition, Mission procedures and guidance are needed to better comply with and implement individual policy statements. The consensus of opinion amongst mission officials was that clarification was needed as to what was expected to fully comply with the policy statements. This would include such matters as which officers are responsible, the type of information to be included in the reports, etc.

Recommendation No. 1

We recommend that the Director, USAID/Swaziland, develop Mission procedures outlining staff responsibilities and actions needed to better comply with and implement payment verification policy statements.

Recommendation No. 2

We recommend that the Director, USAID/Swaziland perform a staffing analysis of the controller's office and provide any needed personnel support in the form of additional personal services contracts and/or competent public accounting firms to supplement the current staff in performance of the functions required to adequately implement AID's payment verification policies.

Recommendation No. 3

We recommend that the Director, USAID/Swaziland instruct the controller to schedule an immediate assessment of the CIP arrival accounting system in Mozambique.

Recommendation No. 4

We recommend that the Director USAID/Swaziland require the controller to perform an immediate analysis of outstanding advances.

USAID/S comments were generally responsive to the draft report. Where necessary changes were made to take into consideration Mission comments and/or concerns (see Appendix 1).

AUDIT OF
USAID/SWAZILAND COMPLIANCE WITH
AID PAYMENT VERIFICATION
POLICY STATEMENTS

EXHIBIT AND APPENDICES

Analysis Of Compliance with
Payment Verification Policy Statements

Policy Statement 1 - A comprehensive general assessment of methods of implementation and financing, reviewed from the standpoint of accountability, is to be presented on a regular basis and more specific assessments are to be included in Project Papers.

Complied

Policy Statement 2 - AID/W Controller concurrence on the implementation and financing aspects are to be included in the general assessment and the more specific Project Paper assessment requiring AID/W review. In order to facilitate the AID/W review process, the USAID Controller concurrence should appear on the Project Data Sheet attached to the Project Paper and on the face sheet of the Project Assistance Approval Document.

Complied

Policy Statement 3 - As part of the assessments under Policy Statement 1, a justification is to be submitted whenever the mission proposes to depart from any of the following general policies.

- (a) The use of Fixed Amount Reimbursement (or modified Fixed Amount Reimbursement) as the preferred method in financing multiple unit construction.
- (b) Use of the Federal Reserve Letter of Credit procedure. Note that Federal Reserve Letters of Credit may be used only in the case of non-profit organizations. They cannot be used in any case for host country contracts or loan-financed contracts.
- (c) The use of the direct reimbursement procedure reimbursing the host country, contractors and others instead of other methods of payment which entail AID financial credit instruments to direct payments for contractors and suppliers.

No action required

Policy Statement 4 - As part of the assessments under Policy Statement 1, a justification is to be provided whenever the mission proposes use of the bank letter of commitment rather than the direct letter of commitment except for commodity import program and project commodity financing for which the mission anticipates a proliferation of invoices.

No action required

Policy Statement 5 - Where host country contracting is proposed as a means of implementation, the assessments required under Policy Statement 1 must set forth a realistic approval of the prospective contracting agency's ability to (a) advertise, award and negotiate contracts, (b) monitor contract implementation, (c) examine invoices, and (d) audit contractor records and reports. If local currency is to be made available to an intermediate credit institution or to any other organization responsible for controlling and reporting on the use of such funds, the mission should first assess the organization's financial management procedures and related internal controls. Such an assessment should also be performed as a prerequisite for providing grants to indigenous private voluntary organizations.

Non-compliance - See audit report text

Policy Statement 6 - Project papers are to (a) include an evaluation of the need for audit coverage in light of potential risks, and (b) describe planned contract and project audit coverage by the host government, AID and/or independent public accountants. Project funds should be budgeted for independent audits unless adequate audit coverage by the host country is reasonably assured or audits by third parties are not warranted as, for example, in the case of direct AID contracts or direct placement of participants by AID.

Partially complied - Our review of three USAID/Swaziland Project Papers disclosed that one of the Project Papers did not contain an evaluation of the need for audit coverage. We were unable to determine the reason why since the project paper was signed in August 1984 and most of the personnel involved including the controller had been reassigned. No funds were budgeted for audit in the three project papers included in our review. Discussions with responsible project officers indicated that they were not familiar with the requirement.

Policy Statement 7 - In lieu of the current negative statement, the project officer is to provide to the controller a statement advising the basis upon which administrative approval is given. AID/W implementing guidelines provided a checklist to be used by project officers when approving vouchers for payment.

Partially complied - See audit report text

Policy Statement 8 - Mission controllers are responsible for providing annual assessments of the mission voucher approval and voucher examination procedures. Such assessments should indicate the adequacy of supporting documents submitted with contractor invoices and the ability of project officers and authorized certifying officers to relate contractor performance with contractor invoices.

Partially complied - See audit report text

Policy Statement 9 - Mission controllers are to provide annual assessments of the adequacy of the monitoring and invoice examination procedures followed by host country contracting agencies. Such assessments should serve as the basis for reliance on host country performance certificate and voucher reviews.

Partially complied - See audit report text

Policy Statement 10 - USAID controllers are encouraged to use the services of competent public accounting firms to a greater degree in providing accounting and financial management consulting services within the project design as a part of program funding and in auditing host country contracts. In their areas of responsibility, USAID controllers are encouraged to use contract personnel to supplement direct-hire foreign nationals for voucher examination.

Partially complied - See audit report text

Policy Statement 11 - The agency's commodity price analysis function should be strengthened to permit more adequate pre- or post-payment audit of commodity costs.

No action required

Policy Statement 12 - Where suitable and subject to federal and AID control guidelines, the agency should place greater reliance upon incentive contract approaches, where contractors share in savings or receive extra benefits for timely completion.

No action required

Policy Statement 13 - Host country contracts should include definitive requirements for submission of invoices and supporting documents.

No action required

Policy Statement 14 - Models for use of the Fixed Amount Reimbursement concept for non-construction projects should be developed for consideration.

Complied

Policy Statement 15 - Definitive requirements for arrival accounting should be developed and published for commodity import programs. Assessments of arrival accounting systems should be included in all commodity import program approval documents.

Non-compliance - See audit report text

Policy Statement 16 - The agency will explore resuming use of formal two-step loan agreements given the increased emphasis on private sector participation.

No action required

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ACTION: AID-5

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FOR RICHARD C. THABET, RIG/A/NAIROBI

P.O. 10256: N/A
SUBJECT: DRAFT AUDIT REPORT OF USAID/SWAZILAND'S
COMPLIANCE WITH AID PAYMENT VERIFICATION POLICY
STATEMENTS

THE FOLLOWING ARE OUR COMMENTS ON THE DRAFT REPORT:

1. AUDIT OBJECTIVES AND SCOPE: AT THE BOTTOM OF PAGE 2, THE VOUCHERS SAMPLED REPRESENTED A SELECTIVE SAMPLE AND NOT A BLOCK NOR 100 PER CENT RANDOM SAMPLE. PLEASE CHANGE REPORT TO READ, "... TESTED BY EXAMINING A SELECTIVE SAMPLE ..."

2. POLICY STATEMENT 6: BEGINNING ON PAGE 6.
(A) IT SHOULD BE NOTED THAT THE CONTROLLER WAS ALSO THE CERTIFYING OFFICER AND PERSONALLY REVIEWED AND SIGNED EACH AND EVERY VOUCHER FOR PAYMENT. CONSEQUENTLY, AN ASSESSMENT AND SAMPLE OF VOUCHERS WOULD RESULT IN AN ABSOLUTE REVIEW OF ONE'S OWN WORK. AN ASSESSMENT OF VOUCHER EXAMINATION (FIRST FULL PARAGRAPH ON PAGE 7) WAS DONE DAILY AT POINT OF CERTIFICATION RATHER THAN ANNUALLY. THIS WAS EXPLAINED TO THE AUDITORS, BUT IT IS NOT REFLECTED IN YOUR REPORT.

(B) PAGE 7, SECOND PARAGRAPH.
(1) THE AUDIT SAMPLE WAS QUITE SELECTIVE AND SHOULD STATE SUCH A PROCEDURE WAS FOLLOWED.
(2) IN ALMOST ALL, IF NOT ALL, OF THE 15 INSTANCES WHERE A CHECKLIST WAS NOT ATTACHED TO A VOUCHER, THESE INSTANCES REPRESENTED SELF-HELP VOUCHERS PROCESSED AND PAID BY THE EMBASSY IN SOUTH AFRICA. THE SAMPLE MAY HAVE INCLUDED SOME HUMAN RIGHTS VOUCHERS, ALSO. EVEN THOUGH SELF-HELP IS STRICTLY AN EMBASSY ACTIVITY AND THE HUMAN RIGHTS PROGRAM IS ALSO CLOSELY MONITORED BY THE EMBASSY, NO AGENCY POLICY HAS BEEN ARTICULATED AS TO WHETHER PROJECT OFFICER'S ADMINISTRATIVE APPROVAL (CHECKLIST) IS REQUIRED FOR SELF-HELP AND HUMAN RIGHTS ACTIVITIES. CONSEQUENTLY, WE RECOMMEND THE FOLLOWING SENTENCE TO BE

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ADDED: "IN THOSE INSTANCES WHERE A CHECKLIST WAS NOT PROVIDED, AGENCY GUIDELINES ARE NOT CLEAR AS TO WHETHER ONE IS REQUIRED OR NOT." IT IS OUR UNDERSTANDING THAT THIS ISSUE IS TO BE ADDRESSED IN THE AID/W PORTION OF THE AUDIT.

(3) ALSO, THE MISSION IS CONFUSED BY THE TWO SENTENCES. "HOWEVER, IN NO CASE WAS THE ADMINISTRATIVE APPROVAL ATTACHED TO THE VOUCHERS. MISSION PERSONNEL WERE OF THE OPINION THAT THE CHECKLIST REPLACED THE NEED FOR THE ADMINISTRATIVE APPROVAL." ACTUALLY IN THE EFFORT TO REDUCE PAPERWORK, WE'VE COMBINED THE CHECKLIST AND PROJECT OFFICER APPROVAL ON ONE SHEET OF PAPER. ATTACHED IS A SAMPLE FORM. CONSEQUENTLY, WE SUGGEST THAT THOSE TWO SENTENCES BE REWRITTEN.

(4) IN THE FOUR CASES WHERE THE FORMS WERE NOT PROPERLY FILLED OUT, IT WAS NOT EXPLAINED TO US IN WHAT MANNER THEY WERE NOT CORRECT NOR DOES THE REPORT EXPLAIN IT.

(5) THE DRAFT REPORT SHOULD BE AMENDED TO REFLECT THAT THE NEGATIVE STATEMENT PROVIDED BY THE APPROVAL STATEMENT IS CONSISTENT WITH WHAT IS REFLECTED IN THE AGENCY'S HANDBOOKS.

SINCE SOME OF YOUR COMMENTS ADDRESS THE PROCEDURES IN MOZAMBIQUE (HOST COUNTRY CONTRACTING) AND SOUTH AFRICA (ASSESSMENT OF INDIGENEOUS PVDS); COPIES OF YOUR REPORT SHOULD BE SENT TO THOSE MISSIONS. ALSO, IT SHOULD BE NOTED THAT USAID/SOUTH AFRICA IS A SCHEDULE A MISSION AND AAC/MOZAMBIQUE IS SCHEDULE A FOR IMPLEMENTATION PURPOSES.

BT

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