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AUDIT OF
A.I.D.'s RURAL SATELLITE PROGRAM

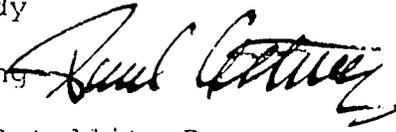
AUDIT REPORT NO. 88-02

MAY 6, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

May 6, 1988

MEMORANDUM FOR SAA/S&T, Nyle C. Brady

FROM: RIG/A/W, Paul E. Armstrong 
SUBJECT: Audit of A.I.D.'s Rural Satellite Program
(Project No. 936-5811)

This report presents the results of an audit of A.I.D.'s Rural Satellite Program. Our findings were discussed with officials in A.I.D.'s Bureau for Science and Technology, Office of Education, whose comments were taken into consideration in preparing this report. Please advise us within 30 days of any additional information relating to actions planned or taken to implement the recommendations. We appreciate the cooperation and courtesy extended our staff during the audit.

Background

The Rural Satellite Program was initiated by A.I.D.'s Bureau for Science and Technology, Office of Education (S&T/ED), on May 15, 1979. The project was designed to test the feasibility of satellite communications in rural development. The objectives were to: (i) develop and test communication satellite links and related technology in order to provide information to rural communities and improve availability of rural services; (ii) demonstrate to providers of satellite services and international funding agencies the benefits of satellite programs for rural development; (iii) lower the cost of ground station equipment appropriate for use in the rural environments of less developed countries; and (iv) support the development of national capacities for integrating communication investment planning with sectoral development planning.

The above objectives were to be accomplished by implementing a minimum of seven to eight field demonstration and pilot projects in less developed countries. In addition, the project encompassed other activities designed to:

- o Support the training of host country personnel for planning, implementing and evaluating rural communication programs;
- o Create an extensive information network;
- o Support limited research and development activities;
- o Conduct an evaluation program; and
- o Support A.I.D. Missions and host countries in planning operational systems.

On August 29, 1980, A.I.D. contracted with the Academy for Educational Development, Inc., a Washington, D.C. based consulting firm, to provide technical advisory services. In addition, hardware management and technical evaluation services were provided by other contractors working under the general direction of A.I.D. and the Academy for Educational Development.

In May 1982, A.I.D. signed a grant agreement with the University of the West Indies in Kingston, Jamaica, providing up to \$600,000 for a teleconferencing network to conduct a long distance teaching program. In June 1982, A.I.D. signed an agreement with the Government of Indonesia to provide equipment and technical assistance totaling approximately \$1.7 million for expanding the Indonesian higher education system through the use of satellite communications. Both these projects were concluded by September 1986. No further pilot projects were implemented by A.I.D.

A.I.D. had authorized up to \$22 million over the life of the Rural Satellite Program. Initially, the project assistance completion date was September 30, 1985 which was subsequently extended to August 13, 1989. As of December 31, 1987, project disbursements totaled approximately \$8.4 million.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Washington, made a program results audit of A.I.D.'s Rural Satellite Program. The objectives were to : (i) determine whether the project satisfactorily achieved the desired level of program results; (ii) identify causes that may have inhibited satisfactory performance; and (iii) ascertain whether expenses billed to A.I.D. by the Academy for Educational Development and the University of the West Indies were in accordance with A.I.D. regulations.

The field work was conducted in Washington, D.C. and Kingston, Jamaica, from September 1 through December 31, 1987. The work included: (i) inspecting the long distance teaching center at the University of the West Indies in Kingston, Jamaica; (ii) reviewing project expenditures totaling approximately \$6.6

million billed to A.I.D. by the Academy for Educational Development and the University of the West Indies; and (iii) interviewing project officials in A.I.D., the Academy for Educational Development and the University of the West Indies. The reviews of internal controls and compliance were limited to activities related to the report findings. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The Rural Satellite Program (RSP) successfully accomplished many of its planned activities. Two pilot projects were implemented in Indonesia and the West Indies which demonstrated the benefits of satellite communication links and assisted the development of telecommunications application technology. The RSP assisted in the initial planning and feasibility studies for a Mission funded rural communication services project in Peru. In addition, RSP undertook an extensive dissemination of information on the benefits of satellite communications technology for rural development. Several technical reports and a newsletter were published by the RSP and distributed to developing countries and international funding agencies, such as the World Bank and INTELSAT.

However, the RSP targets of implementing a minimum of seven to eight pilot projects could not be realized because of budgetary constraints, a shift in program priorities within the S&T/FD office and lack of concurrence among A.I.D. and host country officials. The project contractor, the Academy for Educational Development had billed and was reimbursed by A.I.D. for \$6,630 in non-allowable costs. The University of the West Indies did not have an adequate system for accounting of its local currency project expenditures, as required by the standard provisions of A.I.D. grant agreements with non-U.S. grantees.

The report therefore recommends that A.I.D. should: (i) either modify its project targets by establishing a more realistic plan of action for the remaining 15 months of the Rural Satellite Program or terminate the project; and (ii) recover non-allowable costs of \$6,630 reimbursed to the Academy for Educational Development. The report also suggests that S&T/ED coordinate with USAID/Jamaica to assist the University of the West Indies in establishing an adequate system to account for A.I.D.-financed project expenditures in accordance with A.I.D. regulations.

1. Planned Level of Program Results Was Not Fully Realized

The Rural Satellite Program planned to develop and implement seven to eight pilot projects in less developed countries to demonstrate the benefits of communication satellite links and to support rural development. However, after eight years of operation, only two pilot projects were implemented in Indonesia

and the West Indies. A.I.D. was unable to reach its planned targets because of budgetary constraints, a shift in program priorities and lack of concurrence among host country officials. Consequently, A.I.D.'s objectives were not fully realized because benefits of this program were limited to two locations.

Discussion

The project's principal objective was to develop and test models by which communication satellite links and related technology would provide information to rural communities and improve the availability of rural services. The project paper planned to accomplish this objective by funding a minimum of seven to eight pilot projects in less developed countries, each typically lasting 1 to 2 years. In addition, short term demonstration projects of six months duration were to be implemented. A.I.D. authorized up to \$22 million over the life of the project.

Between May 1979 and September 1986, A.I.D. planned, developed and implemented two pilot projects in Indonesia and the West Indies. The audit showed that the projects were successfully implemented and strengthened the infrastructure for an ongoing satellite communications application program in Indonesia and the West Indies. Both host country and A.I.D. Mission officials interviewed were highly appreciative of the project's benefits. However as of December 31, 1987, the Rural Satellite Program was not able to initiate and implement its planned target of seven to eight pilot projects.

A.I.D. officials in S&T/ED stated that although up to \$22 million was authorized at the inception of the project in May 1979, release of funds was subject to the overall budgetary ceiling established annually by the Congress. Consequently, the budgetary ceilings in A.I.D.'s centrally funded programs prevented obligation of sufficient funds to expand the Rural Satellite Program. Moreover, the A.I.D. Office of Education altered their priorities and strategies to concentrate on formal primary education projects rather than the satellite communications program. S&T/ED officials further stated that they had conducted extensive discussions with officials of the governments of the Philippines and Senegal to establish pilot projects in those countries. No agreements could be finalized in the Philippines because of lack of concurrence among host country officials. Efforts to include a rural satellite component as part of a large umbrella project in Senegal failed because the project was ultimately not approved by A.I.D. Although the Rural Satellite Program completion date was extended from September 1985 to August 1989, A.I.D. had not developed any concrete plans to expand the project activities in order to achieve its planned targets.

Therefore, the benefits of this project were limited to Indonesia and the West Indies. A.I.D. was unable to build on the success of its two pilot projects to develop and implement similar projects in other less developed countries.

Given the absence of definitive agreements between A.I.D. and officials in other countries, it was a prudent action for A.I.D. to delay obligating the remaining \$13.8 million in available funds. However, it is now time for A.I.D. to reassess its project strategy and take appropriate action to either modify its planned level of project outputs or terminate the Rural Satellite Program.

Recommendation No. 1

We recommend that the Bureau for Science and Technology, Office of Education, should either develop a realistic action plan for the remaining 15 months of the Rural Satellite Program, or terminate the project.

2. A.I.D. should recover non-allowable costs billed by the project contractor, the Academy for Educational Development.

We reviewed project expenditures totaling approximately \$6 million billed to A.I.D. by the principal project contractor, the Academy for Educational Development, from contract inception (August 1980) through June 30, 1987. Overall, the contractor's accounting records and its system of internal controls over expenditures were satisfactory. We identified some minor expenses totaling \$5,630 which were not allowable under A.I.D. regulations. The costs, explained in detail in Appendix 1, are itemized below.

Air fares not allowed under A.I.D. regulations	\$4,699
Office furniture not allowable under the terms of contract	700
	<u>\$5,399</u>
Overhead computed on non-allowable air fares of \$4,699 at 26.2%	1,231
Total non-allowable costs	<u>\$6,630</u>

Recommendation No. 2

We recommend that the Bureau for Science and Technology, Office of Education, coordinate with the Office of Procurement to recover \$6,630 of non-allowable costs reimbursed to the Academy for Educational Development.

Other Pertinent Matters

We reviewed reports of local currency expenditures totaling \$575,920 billed to A.I.D. by the University of the West Indies (UWI) from May 1982 through May 1985. This amount represented

operating expenditures incurred by the UWI relating to the A.I.D. funded satellite communications program. According to UWI officials, approximately 20 percent, or \$114,500 of these costs were incurred by the UWI campuses located in Barbados, Trinidad, Antigua, St. Lucia and Dominica. The campuses forwarded expenditure reports to the UWI main office at Kingston, Jamaica, where they they were incorporated in the project accounting records. The reports did not include adequate supporting documentation such as vendor invoices, payroll receipts, cancelled checks or other acceptable evidence of payment. UWI officials informed us that the supporting documents were retained by each campus office but not forwarded to Kingston.

The standard provisions of A.I.D. financed grant agreements require that the grantee should maintain books, records, documents and other evidence to sufficiently substantiate charges to the grant. We believe that, at a minimum, copies of supporting documents should have been forwarded by the UWI campuses to Kingston for review and control by project management. Because the grant agreement terminated in May 1985, we are not making a formal recommendation. We however suggest that the A.I.D. office of S&T/ED coordinate with the A.I.D. Mission in Jamaica to instruct the UWI to maintain adequate accounting records in accordance with A.I.D. regulations.

S&T/ED officials concurred that adequate documentation should be maintained at the UWI main office in Kingston to facilitate review and monitoring of project expenditures. In view of the fact that the UWI has other mission funded grant agreements with A.I.D., S&T/ED agreed to coordinate with USAID/Kingston to require the UWI to maintain adequate accounting records in accordance with A.I.D regulations.

A.I.D. RURAL SATELLITE PROGRAMEXPLANATION OF NON-ALLOWABLE COSTS BILLED
BY THE ACADEMY FOR EDUCATIONAL DEVELOPMENT (AED)
FOR THE PERIOD AUGUST 29, 1980 THROUGH JUNE 30, 1987Air-Fares Not Allowed Under A.I.D. Regulations - \$4,699

A.I.D. travel regulations (Handbook 22) require that all official travel is to be performed by a direct, usually traveled route. A traveler who deviates from such a route bears any extra expenses incurred. Between November 1984, and May 1985, AED sub-contractors made four round trips from the U.S. to project sites in Indonesia, but deviated from the most direct, usually traveled routes, incurring \$4,699 in extra air fares. No written authorizations from A.I.D. were obtained for such deviations. Therefore the cost is non-allowable.

Office Furniture Not Allowable Under Terms of Contract - \$700

In September 1986, AED procured office furniture for its Washington, D.C. office for \$700. Under terms of its contract agreement with A.I.D., AED was responsible for providing logistic support. A.I.D. was to finance the purchase of project equipment only. We believe that office furniture purchased for use in Washington does not constitute project equipment. Therefore, the cost is non-allowable.

Overhead Computed on Non-Allowable Air Fare - \$1,231

Travel expenses are a part of the overhead base according to the terms of the contract between AED and A.I.D. Therefore, the applicable overhead on the non-allowable air fares should be disallowed. Based on non-allowable air fares of \$4,699, the overhead claimed by AED should be reduced by \$1,231.

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