

AUDIT OF
PROGRAM DEVELOPMENT AND
SUPPORT FUNDS AT THE OFFICE
OF THE A.I.D. REPRESENTATIVE/RWANDA
PROJECT NO. 698-0510.96

AUDIT REPORT NO. 3-696-88-15
June 27, 1988

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

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June 27, 1988

MEMORANDUM FOR A.I.D. REPRESENTATIVE, Rwanda, Emerson Melaven

FROM: RIG/A/Nairobi, Richard C. Thabet *Richard C. Thabet*

SUBJECT: Audit of Program Development and Support
Funds at the Office of the A.I.D. Representative/
Rwanda, Project No. 698-0510.96

The Office of the Regional Inspector General for Audit/Nairobi has completed its audit of program development and support (PD&S) funds at the Office of the A.I.D. Representative/ Rwanda, Project No. 698-0510.96. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains two recommendations. Recommendation No. 1 is considered resolved but needs further action before it can be closed. Recommendation No. 2 is considered unresolved because the Mission's position needs further clarification. Please advise me within 30 days of any additional information related to the actions planned or taken to implement recommendations Nos. 1 and 2.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

Program development and support was defined as activities whose purpose was the identification, design and evaluation of programs or projects/activities where such activities could not be easily or appropriately charged to the individual project/activity. The traditional uses of program development and support funds included:

- project identification and development;
- sectoral analyses and studies;
- seminars/workshops;
- residual support for terminating projects; and

-- on an exception basis, individual project evaluations (normally charged to individual projects).

There was no separate appropriation for PD&S funds. PD&S funds were established by A.I.D. to fund the identification, design and evaluation of programs and projects. PD&S funds consisted of program funds derived from various Development Assistance appropriations. The Bureau for Program and Policy Coordination assigned a portion of those funds to each geographic bureau for program development and support costs, and each geographic bureau managed those funds differently. In the Bureau for Africa, PD&S funds were allocated to overseas missions based on requests from each mission. During fiscal years 1985 thru 1987, PD&S funds totalling \$817,728 were obligated at the Office of the A.I.D. Representative/Rwanda (OAR/Rwanda).

Audit Objective and Scope

The Office of the Regional Inspector General for Audit/Nairobi made an economy and efficiency audit of the use of PD&S funds at OAR/Rwanda. The overall objective was to determine how PD&S funds were used. Specific objectives were to determine if (1) PD&S funds were used for purposes specified in A.I.D. guidance, and (2) unused PD&S funds were being deobligated.

The audit was made at OAR/Rwanda in Kigali, Rwanda during the period November 3 - 10, 1987. (Exhibit 1 shows the location of Rwanda). OAR/Rwanda officials were interviewed, files and financial reports were reviewed and related internal controls were tested.

The audit scope included \$817,728 of PD&S funds obligated for fiscal years 1985 through 1987 (see Exhibit 2) of which obligations totalling \$473,615 and expenditures totalling \$204,243 were tested. The audit tests did not include PD&S funds totalling \$161,500 and designated for local cost support in fiscal year 1986, since such funds were available for a broader range of uses on a one-time basis. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit showed that OAR/Rwanda's use of PD&S funds did not conform to A.I.D. regulations and Africa Bureau guidance, and that OAR/Rwanda had not deobligated unneeded funds.

OAR/Rwanda's management of PD&S funds started to improve in fiscal year 1987. The improvements coincided with the establishment of a Mission Controller position and the assignment of a Controller to OAR/Rwanda in September 1986.

Recognizing that improvements were underway, the audit still found that OAR/Rwanda had used \$328,865 in PD&S funds for improper activities which should have been charged to operating expense or project activities. The audit also determined that OAR/Rwanda had not promptly deobligated unneeded PD&S funds.

Management of PD&S Funds Needs Improvement - A.I.D. regulations and guidance specified how A.I.D. funds, including PD&S funds, could be used. Legislation and A.I.D. regulations required that unneeded funds should be identified and deobligated promptly. PD&S funds were used for improper purposes because OAR/Rwanda officials applied a broad interpretation to the criteria and guidance. Also, OAR/Rwanda officials had unneeded PD&S funds available because the Mission had no system for periodically reviewing the continuing need for the funds. As a result, about \$328,865 was used for improper purposes and unneeded funds totalling \$39,348 were not deobligated promptly.

Discussion - A.I.D. regulations and guidance specified how various types of funds, including PD&S funds could be used. A.I.D. Handbook 19, Chapter 11, paragraph 11B.3.b.(1) stated that program funds were to be used for "Costs associated with consultants, contractors, PASA and RSSA personnel engaged exclusively [underscoring added, in project or program design, implementation and evaluation, including feasibility studies." Thus, the regulations, precluded the use of program funds if such personnel were involved in Agency management operations. Paragraph 11B.3.a.(2) stated that contractors, etc. engaged in Agency management operations should be funded from operating expenses.

A.I.D.'s Bureau for Africa guidance issued in November 1984 and reaffirmed in subsequent guidance stated that the main purpose for PD&S funds was the preparation and development of new projects. This guidance in some regards was more restrictive than the Handbook. Specific restrictions on the use of PD&S funds were:

- funds could not be used to support an existing approved project;
- funds could not be used for pre-implementation activities without Africa Bureau Assistant Administrator approval;
- funds could not be used for operating expense activities; and
- no activity could exceed \$200,000 without approval.

Thus, even though the Handbook allowed program funds to be used to implement projects, Africa Bureau guidance precluded such support to existing projects.

Both legislation and A.I.D. regulations required that any funds not used and no longer needed by A.I.D. missions be promptly identified and deobligated. Section 1311 of Public Law 83-663, approved August 26, 1954 [31 U.S.C. 1501] required the Agency Controller attest to the continued need for unspent funds. A.I.D. Handbook 19, sections 2M, 2N and 20 required the continuing review and periodic intensive review of unspent funds to identify those amounts no longer needed and the prompt deobligation of unneeded funds.

OAR/Rwanda's use of PD&S funds did not conform to A.I.D. regulations and Africa Bureau guidance and OAR/Rwanda officials were not adequately reviewing unspent funds to determine if the funds were still needed.

Concerning the use of PD&S funds, most examples of improper use related to services performed by contractors (see Exhibit 2). For example, one contractor was hired to monitor an approved on-going drought relief program and to assist in verifying commodity distribution activities. OAR/Rwanda officials told us this was a temporary need for assistance, the Mission was pressured by Washington to hire people for monitoring and this use was approved by Washington. The contract however went beyond monitoring activities and assigned the contractor responsibilities to assist in implementing the program and in coordinating program activities. Africa Bureau guidance precluded such support to approved on-going projects.

Another contractor was hired to be an Administrative Assistant and Secretary to OAR/Rwanda's Health and Population Officer. Such assistance was required due to the additional workload placed on the officer by a visiting project evaluation team. While some of the administrative assistant's work related directly to supporting the evaluation team, other required duties related to general Mission management operations such as answering the phone, drafting general correspondence, and maintaining the Health and Population Officer's files and reference library. In addition, a desk and chair was bought for the administrative assistant with PD&S funds. According to A.I.D. regulations, program funds could not be used unless contractor services were engaged exclusively in project activities. Bureau guidance also precluded using PD&S funds for operating expense activities.

A third contractor was hired through an institutional contract with a U.S. university to be the Mission's Social Science Advisor. The contractor was in his fourth year at OAR/Rwanda - the last two years being PD&S funded. The contract required, among other things, that the Advisor increase coordination and cooperation among planned and on-going projects. The A.I.D. Representative's justification supporting the contract stated that the Advisor has "... continually provided key analytical inputs for our program, both in design and implementation" and that "... his other work in project and program analysis and management is also critical for effective Mission operations". Mission officials told us this contractor was specifically approved by Washington and the funds allowed for that purpose. Even so, A.I.D. regulations precluded funding such Mission management operations with program funds.

Non-compliance regarding the use of funds appeared to be centered around OAR/Rwanda's understanding and interpretations of A.I.D. regulations and the Africa Bureau guidance. For example, one official stated that the title "Program Development and Support" indicated that funds could be used to support project implementation. Other Mission officials stated that the Mission "may not have always correctly interpreted Africa Bureau guidance on PD&S funds although they believed they were correctly using these funds...."

Concerning the review and deobligation of unspent funds, the audit determined that OAR/Rwanda had not deobligated unneeded funds. During fiscal years 1985 through 1987, OAR/Rwanda obligated PD&S funds totalling \$317,728. Of that amount \$340,206 was unspent at the time of audit. For fiscal years 1985 and 1986 unspent funds totalled \$129,348. This figure included \$39,348 for activities that were completed (see Exhibit 3) and for which funds should have been deobligated and a \$90,000 obligation for an institutional contract which was still on-going. In addition, for fiscal year 1987, the Mission had an unspent balance of \$210,858 which had not been fully reviewed prior to the year end and included some unneeded funds.

Mission officials acknowledged the lack of systematic review of unspent funds. Various reasons were given as to why adequate reviews were not being done. According to the A.I.D. Representative, he requested a Controller because of various Mission financial problems. Previously, no controller had been assigned to OAR/Rwanda. The A.I.D. Representative believed having the Controller now on board would solve this problem. Since the Controller arrived, improvements in financial operations had occurred; however, unspent funds were still not

adequately reviewed to determine if all or portion of unspent funds were unneeded. Mission officials agreed that closer monitoring was needed and this reports makes recommendations to provide for regular periodic reviews.

Due to the apparent lack of understanding and/or misinterpretation of A.I.D. regulations and Africa Bureau guidance, OAR/Rwanda used about \$328,865 to fund improper activities. In addition, because OAR/Rwanda did not review funds to determine the continued need for them, funds totalling about \$39,348 were unnecessarily retained. If identified earlier, those could have been used to promote other development assistance activities rather than remaining unused for up to two years.

Recommendation No. 1

We recommend that the A.I.D. Representative, Rwanda,

- a. request definitive guidance from the Bureau for Africa concerning the use of program development and support funds; and
- b. issue a Mission Order clarifying the purposes for which program development and support funds can be used.

Recommendation No. 2

We recommend that the A.I.D. Representative, Rwanda,

- a. devise procedures for the periodic review of unspent funds and the deobligation of unneeded funds, incorporate the review as a part of the Mission's quarterly Project Implementation Review, and issue a Mission Order to that effect;
- b. deobligate excess program development and support funds for 1985 and 1986; and
- c. review unspent 1987 program development and support funds totalling \$210,858, and deobligate unneeded funds.

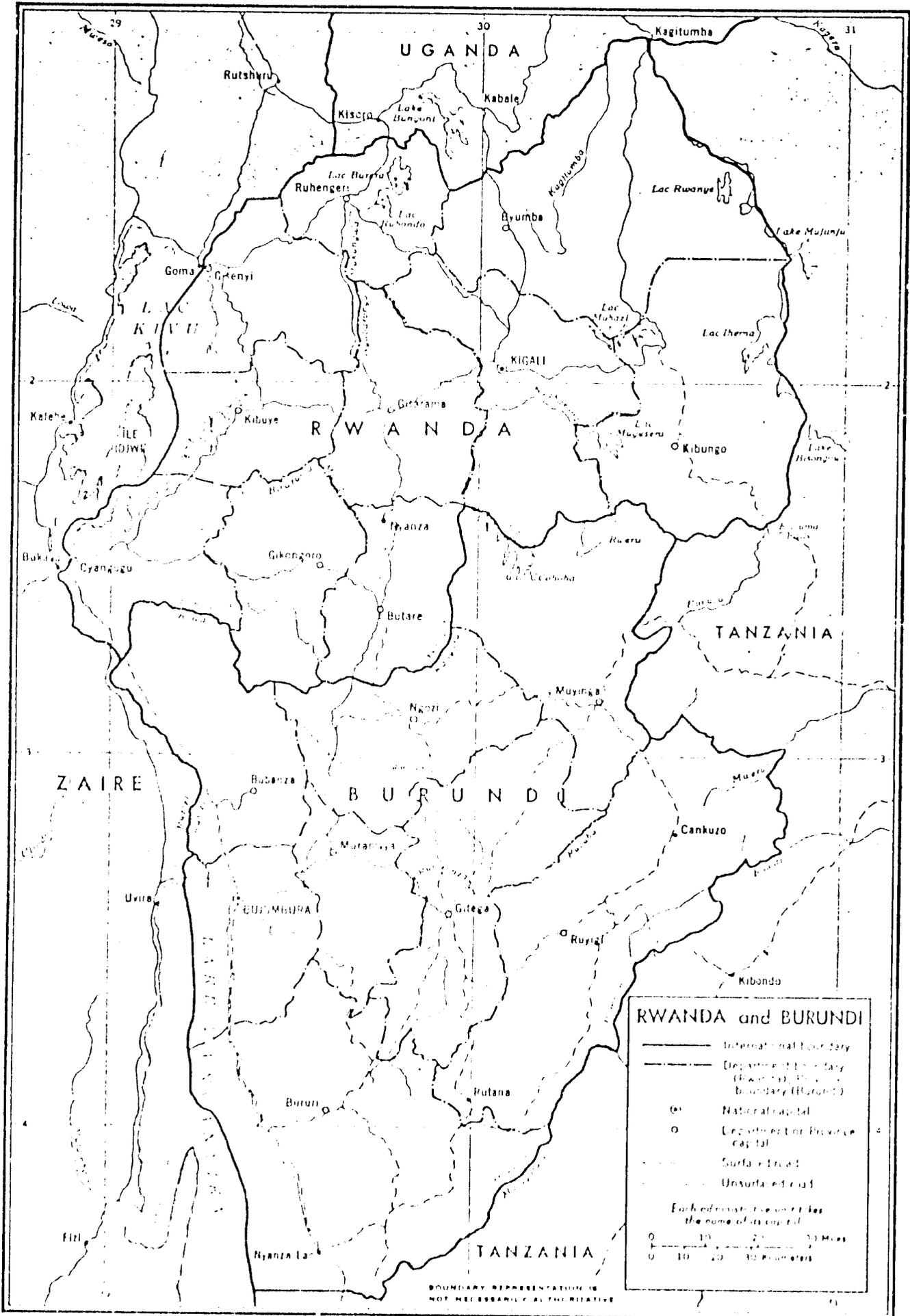
In commenting on the draft report (see Appendix 1), OAR/Rwanda officials generally agreed with the report findings and recommendations and specified actions taken and/or planned to implement the recommendations. OAR/Rwanda officials however, disagreed with the recommendation to issue a Mission Order regarding procedures for periodically reviewing unspent funds to determine the continuing need for those funds - even though the officials accepted the need for procedures.

While OAR/Rwanda comments did not state why the Mission Order was objectionable, RIG/A/N believes that a Mission Order should be issued to document the procedures for reviewing unliquidated obligations and to institutionalize such procedures. Accordingly, the recommendation was retained in the report and this recommendation is considered unresolved.

OAR/Rwanda officials' comments indicated that they have already initiated actions to deobligate excess funds. In addition, the Mission plans to obtain definitive guidance and issue a Mission Order setting forth specific guidance on the use of PD&S funds at OAR/Rwanda.

AUDIT OF
PROGRAM DEVELOPMENT AND SUPPORT FUNDS
AT OAR/RWANDA

EXHIBITS AND APPENDICES



OAR/RWANDA
PD&S OBLIGATIONS AND EXPENDITURES
(As of November 1987)

| <u>FISCAL</u> <u>YEAR</u> | <u>AMOUNT</u> <u>OBLIGATED</u> | <u>AMOUNT</u> <u>SPENT</u> | <u>AMOUNT</u> <u>UNSPENT</u> |
|------------------------------|-----------------------------------|-------------------------------|---------------------------------|
| 1985 | \$ 99,700 | \$ 94,991 | \$ 4,709 |
| 1986 ^{1/} | 451,900 | 327,260 | 124,640 |
| 1987 | <u>266,128</u> | <u>55,271</u> | <u>210,857</u> |
| | \$ <u>817,728</u> | \$ <u>477,522</u> | \$ <u>340,206</u> |

^{1/} Excludes obligations totalling \$161,500 designated for local cost support.

OAR/RWANDA
IMPROPER PD&S FUNDED ACTIVITIES

| <u>ACTIVITY/DOCUMENT NO.</u> | <u>AMOUNTS OBLIGATED</u> | | | <u>TOTAL</u> |
|--|--------------------------|-----------------|------------------|------------------|
| | <u>1985</u> | <u>1986</u> | <u>1987</u> | |
| Drought Relief Contractor CO-696-0000-S-00-5011 | \$22,578 | - | - | \$22,578 |
| Technical Advisory Accounting Contractor CO-698-0510.96-5-00-5032 | 25,000 | - | - | 25,000 |
| Computer Programming - Prime Project CO-696-0510.96-S-00-5037 | 1,500 | \$1,515 | - | 3,015 |
| Pre-Implementation - Prime Project CO-696-0510.96-S-00-5036 | 16,000 | 2,900 | - | 18,900 |
| Computer Acquisition Report PO-696-5-1700 | 7,122 | - | - | 7,122 |
| Social Science Advisor CO-698-0510-S-00-6018 CO-698-0510-S-00-7046 | - | 90,000 | \$83,000 | 173,000 |
| Refining Minefineco Input/Output Model CO-698-0510-S-00-7006 | - | - | 23,000 | 23,000 |
| Administrative Assistant CO-698-0510-S-00-7047 | - | - | 3,250 | 3,250 |
| Participant Training Contractor CO-698-0510.96-S-00-7044 | - | - | 11,000 | 11,000 |
| Social Science Advisor Support Costs MO-87-02 | - | - | 37,000 | 37,000 |
| Materials Acquisition MO-87-06 | - | - | 5,000 | 5,000 |
| Total | <u>\$72,200</u> | <u>\$94,415</u> | <u>\$162,250</u> | <u>\$328,865</u> |

OAR/RWANDA
UNNEEDED PD&S BALANCES
(As of November 1987)

| <u>FISCAL YEAR/ DOCUMENT NO.</u> | <u>AMOUNTS OBLIGATED</u> | <u>AMOUNTS SPENT</u> | <u>AMOUNTS UNNEEDED</u> |
|--------------------------------------|------------------------------|--------------------------|-----------------------------|
| <u>1985</u> | | | |
| CO-0510-S-00-5037 | \$ 1,500 | \$ 1,455 | \$ 45 |
| CO-0510-S-00-5011 | 22,578 | 22,578 | 331 |
| CO-0510-S-00-5035 | 14,000 | 12,872 | 1,128 |
| CO-0510-S-00-5032 | 25,000 | 22,127 | 2,873 |
| CO-0510-S-00-5012 | 11,000 | 10,669 | 331 |
| Total 1985 | <u>74,078</u> | <u>69,370</u> | <u>4,708</u> |
| <u>1986</u> | | | |
| CO-696-0510-96-S-5036 | 2,900 | 2,640 | 260 |
| AFR-0510-P-AG-6010 | 10,795 | 2,971 | 7,824 |
| CO-698-0510-S-6003 | 10,000 | 8,002 | 1,998 |
| CO-698-0510-S-6010 | 6,500 | 4,039 | 2,461 |
| CO-698-0510-S-6020 | 12,000 | 9,988 | 2,012 |
| CO-698-0510-S-6021 | 23,000 | 13,251 | 9,749 |
| CO-698-PDC-1096-4159 | 115,000 | 104,861 | 10,139 |
| PO-696-86-120 and 126 | 8,339 | 8,200 | 139 |
| TA-6460241 | 4,000 | 3,946 | 54 |
| TR-696-86-071 and 075 | 268 | 264 | 4 |
| Total 1986 | <u>192,802</u> | <u>158,162</u> | <u>34,640</u> |
| Totals | <u>\$266,880</u> | <u>\$227,532</u> | <u>\$39,348</u> |

ACTION: AID-3 INFO: ECON RLO

VZCZCNA0261
 PF RUEHNR
 DE RUEHLGB #2045 1270844
 ZNR UUUUU ZZH
 P 060841Z MAY 88
 FM AMEMBASSY KIGALI
 TO AMEMBASSY NAIROBI PRIORITY 3727
 BT
 UNCLAS KIGALI 02045

05-MAY-88 TOR: 09:51
 CN: 21483
 CHRG: AID
 DIST: AID
 ADD:

AIDAC

NAIROBI FOR R. THABET, RIG/A/N

E.O. 12356: N/A
 SUBJECT: DRAFT AUDIT REPORT - PROGRAM DEVELOPMENT AND
 SUPPORT FUNDS

REF: THABET TO MELAVEN MEMO, DATED 3/22/88

1. THE INFORMATION PROVIDED BELOW SETS FORTH THE
 ACTIONS TAKEN OR PLANNED TO IMPLEMENT THE SUBJECT REPORT
 RECOMMENDATIONS.

--SPECIFIC COMMENTS:

PAGE 7 - STATEMENT SHOULD READ, "FOR EXAMPLE, ONE
 CONTRACTOR WAS PAID TO ASSIST IN THE MONITORING (NOT
 IMPLEMENTING) AN OIL MONETIZATION PROGRAM AND TO ASSIST
 IN VERIFYING (NOT COORDINATING) COMMODITY DISTRIBUTION
 ACTIVITIES." THIS USE WAS APPROVED BY WASHINGTON AND
 OUR REQUEST CLEARLY STATED THAT THIS WAS THE INTENDED
 PURPOSE. THIS WAS A TEMPORARY EMERGENCY NEED FOR
 ASSISTANCE AND WE WERE PRESSURED BY WASHINGTON TO HIRE
 PEOPLE FOR MONITORING.

PAGE 7 - "ANOTHER CONTRACTOR WAS PAID TO BE AN
 ADMINISTRATIVE ASSISTANT AND SECRETARY TO THE
 USAID/RWANDA'S HEALTH AND POPULATION OFFICER. ADD:
 "DURING A PROJECT EVALUATION". THIS WAS NOT A
 CONTINUING POSITION AND THE INDIVIDUAL WAS HIRED TO
 ASSIST THE TEAM. THE DESK AND CHAIR WERE ALSO BOUGHT
 FOR THIS PERSON.

PAGE 8 - REGARDING THE SERVICES OF THE SOCIAL SCIENCE
 ADVISOR. THIS WAS SPECIFICALLY APPROVED BY WASHINGTON
 AND THE FUNDS ALLOWED FOR THAT PURPOSE.

- RECOMMENDATION NO. 1

A. MISSION ACCEPTS THE RECOMMENDATION. BUT DOES NOT
 AGREE TO ISSUE A MISSION ORDER. MISSION BELIEVES THAT
 THE REVIEW OF UNSPENT OBLIGATIONS COULD BE BETTER
 CARRIED-OUT DURING QUARTERLY PROJECT IMPLEMENTATION
 REVIEW MEETINGS.

B. MISSION ACCEPTS THE RECOMMENDATION DOLS 7,218 FOR 1985

AND DOLS 20,000 FOR 1986 WILL BE DEOBLIGATED NOT LATER THAN 06-30-88.

C. MISSION ACCEPTS THE RECOMMENDATION. IN PROCESS OF REVIEWING UNLIQUIDATED FUNDS.

- RECOMMENDATION NO. 2

A. MISSION ACCEPTS THE RECOMMENDATION AND HAS ASSIGNED ACTION TO PDO FOR FOLLOW-UP. TIME WILL BE NEEDED AS PDO DOESN'T ARRIVE UNTIL AUGUST 1988.

B. MISSION ACCEPTS THE RECOMMENDATION BUT ACTION AWAITS PDO ARRIVAL.

2. PLEASE REVIEW THE ABOVE COMMENTS AND ADVISE THE MISSION ACCORDINGLY. SPEARMAN

BT
#2045

NNNN

REPORT DISTRIBUTION

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|------------------------------|----|
| A.I.D. Representative/Rwanda | 5 |
| AA/AFR | 1 |
| AA/M | 2 |
| AA/XA | 2 |
| AFR/CONT | 1 |
| AFR/CCWA/ZRBC | 1 |
| LEG | 1 |
| GC | 1 |
| XA/PR | 1 |
| M/FM/ASD | 2 |
| M/AAA/SER | 1 |
| M/SER/MO | 1 |
| M/SER/EOMS | 1 |
| PPC/CDIE | 3 |
| REDSO/ESA | 1 |
| RFMC/Nairobi | 1 |
| IG | 1 |
| DIG | 1 |
| IG/PPO | 2 |
| IG/ADM | 12 |
| IG/LC | 1 |
| IG/PSA | 1 |
| AIG/I | 1 |
| RIG/I/Nairobi | 1 |
| RIG/A/Cairo | 1 |
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