

PD-AAY-340

11/18/88

AUDIT OF FUNDS PROVIDED FOR
PROGRAM DEVELOPMENT AND SUPPORT
PROJECT NUMBER 938-0800

AUDIT REPORT NO. 9-000-89-001

OCTOBER 18, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

October 18, 1988

MEMORANDUM FOR FVA/AA, Owen Cylke (Acting)

FROM: IG/PSA, *Mervin F. Boyer, Jr.*

SUBJECT: Audit of Funds Provided for Program Development and Support, Project Number 938-0800

This report presents the results of an audit of funds provided for program development and support (PD&S). This audit is part of a series of PD&S audits worldwide. A summary report that addresses broader issues than those identified by the individual reports will be subsequently developed. Five copies of the report are attached for your action.

A draft report was provided to you for your comments which are attached as Appendix 1. The report contains two recommendations which are considered resolved and will be closed when we are notified that the actions planned have been taken. Please provide, within 30 days, the actions taken to implement the recommendations.

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

Background

A.I.D. guidance on use of PD&S funds is defined in Handbook 18, Section III, Appendix D, as those activities whose purpose is the identification, design, and evaluation of program or project activities that cannot be easily or appropriately charged to the individual activity.

PD&S funds are portions of development assistance appropriations that are allocated to the bureaus by the Bureau for Program and Policy Coordination. Each bureau is responsible for establishment of policy and management of its PD&S funds, as well as maintaining accountability over availability and use of funds. This funding is provided to conduct feasibility and development activities in the eight

A.I.D. purpose categories, such as Food Supply, Rural Development, and Nutrition. Additionally, they are used to fund program evaluations, sector assessments and other special studies.

The Bureau for Food for Peace and Voluntary Assistance (FVA) had one PD&S project titled FVA Program Development and Evaluation in FY 1987. FVA had not issued implementing guidance on the use of PD&S funds.

Based on the fiscal year 1989 Congressional Presentation, funding for FVA PD&S activity was as follows:

	Fiscal Year 1987 <u>Obligations</u> (000)	Fiscal Year 1988 <u>Estimate</u> (000)
FVA Project Development and Evaluation	<u>\$499</u>	<u>\$488</u>

Audit Objectives and Scope

The Inspector General's Office of Programs and Systems Audits made a financial and compliance audit of PD&S funds provided to FVA. The audit objectives were to determine the appropriateness of the use of PD&S funds and to evaluate the effectiveness of administrative and accounting controls in place in the Bureau.

The scope of the review conducted in FVA was limited to obligations incurred during fiscal year 1987. Of the \$.5 million in PD&S obligations for fiscal year 1987, the auditors reviewed 8 of 33 obligating actions totalling \$.3 million or 60% of fiscal year 1987 obligations. The audit sample was selected on the basis of high dollar amounts and activity descriptions which indicated possible inappropriate use of PD&S funds. The review of compliance and internal controls was limited to the findings in this report.

Audit work was conducted from April 1988 to July 1988 and included interviews with Bureau officials, review of A.I.D. and Bureau guidance, obligating documents, reports, financial records and correspondence. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The Bureau had used PD&S funds to incrementally fund an existing project and had split procurements to avoid procedural

requirements. Recommendations are being made for FVA to develop PD&S guidance and to comply with procurement policy on invitational travel and small purchases. No other administrative or procedural control weaknesses were found.

1. On-going Project Funding was Augmented by PD&S Funds - Although the Bureau had not established policy guidance to define appropriate uses of PD&S funds, A.I.D. Handbook 18 indicates that PD&S funds are to be used in cases that cannot be easily or appropriately charged to the individual project activity. The audit showed that FVA had supported a multi-year project with incremental funding of \$44,000 from the PD&S account. This occurred because FVA had not established PD&S guidance and had not adhered to A.I.D. policy. As a result, \$44,000 of PD&S funds was used to augment a Congressionally approved project.

Discussion - Handbook 18 indicates that the intended use of PD&S funds is for identification, design, and evaluation of programs, projects or activities where such activities cannot be easily or appropriately charged to the individual project or activity. Therefore, based on this criteria, costs relating to the continuing activities of an on-going project should be excluded from PD&S support and should be charged to project funding.

The Bureau contracted for technical assistance in food needs assessments under a multi-year contract on September 14, 1987 for services to be incrementally funded through September 1990. On September 25, 1987, the Bureau issued a Project Implementation Order, Technical Services for \$59,000 of which \$44,000 was from PD&S funds. This occurred because FVA had not issued guidance on the acceptable use of PD&S funds and confusion existed concerning appropriate PD&S uses. As a result, PD&S funds inappropriately augmented project funding.

Recommendation No. 1

We recommend that the Assistant Administrator for the Bureau for Food for Peace and Voluntary Assistance develop guidance regarding the appropriate uses and management of Program Development and Support funds and ensure that the Bureau adheres to A.I.D. and Bureau policy.

FVA management stated that the situation arose due to a mistake in not processing documentation to convert the PD&S funds used to project funds. FVA officials agreed with the finding and will implement the recommendation (see Appendix 1).

2. Invitational Travel and Split Procurements Circumvented Procedures - A.I.D. Handbook 22 limits the use of invitational travel orders to those not receiving remuneration from A.I.D. The Office of Procurement also issued policy guidance restricting the breakout of travel costs. FVA had funded travel in conjunction with contractor performance of evaluations by issuing invitational travel orders. As a result, on two separate occasions, Federal Acquisition Regulation requirements for advertising purchases of more than \$10,000 were avoided.

Discussion - A.I.D. Handbook 22 paragraph 7B.1 allows the use of invitational travel "for both U.S. and foreign citizens not employed by the U.S. Government and not receiving any type of compensation from A.I.D.". Additionally, the Office of Procurement has issued a policy memorandum stating that for individuals providing professional services overseas, "the cost of travel is so integral to the service being provided as to be nonseverable." Further, the Federal Acquisition Regulations, in order to attain more favorable pricing through competition, require advertising when the estimated cost of a contract action reaches a threshold of \$10,000. By separating travel costs, estimated costs were kept below this level.

The Bureau, twice during FY 1967, separately funded the costs of travel relating to evaluations, estimated to cost just over \$10,000 when travel costs were included. In one instance, a contract was awarded for \$9,949 to perform a project evaluation and invitational travel orders were issued for \$1,935. In a second instance, a contract was awarded for \$9,950 and invitational travel orders issued for \$280. By using invitational travel orders, the cost of the evaluation contracts were kept below the \$10,000 threshold, thereby avoiding the "over \$10,000" advertising requirement.

Recommendation No. 2

We recommend that the Assistant Administrator for the Bureau for Food for Peace and Voluntary Assistance provide guidance to each of its offices to ensure they comply with A.I.D. Handbook 22 regulations on the use of invitational travel, and Federal and A.I.D. procurement policies regulating small purchases.

Bureau management agreed with the finding and stated that this approach to funding travel on evaluations will be discontinued (see Appendix 1).

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

8 SEP 1988

MEMORANDUM

TO : IG/PSA, Mervin F. Boyer, Jr.
FROM : A-AA/FVA, Owen Cylke *ORC (for)*
SUBJECT: Draft Inspector General Report, Audit of Funds
Provided for Program Development and Support
Project Number 938-0800

Having reviewed the findings of the audit report and the recommendations of your office, FVA proposes the following action:

Relating to Recommendation No. 1, FVA will issue written guidance on the use of PD&S funds to its Offices not later than October 1, 1988.

Relating to Recommendation No. 2, FVA will provide guidance to each of its Offices with copies of the Handbook 22 regulations regarding invitational travel and AID procurement policies regulating small purchases; again, not later than October 1, 1988.

cc: FVA/PPM, Barry Riley

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