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AUDIT OF  
PROGRAM DEVELOPMENT AND SUPPORT FUNDS  
AT USAID/KENYA  
PROJECT NO. 615-0510

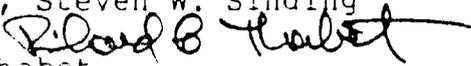
AUDIT REPORT NO. 3-615-88-24  
AUGUST 30, 1988

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
REGIONAL INSPECTOR GENERAL/AUDIT

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August 30, 1988

MEMORANDUM FOR Mission Director, Kenya, Steven W. Sinding  
FROM: RIG/A/Nairobi, Richard C. Thabet   
SUBJECT: Audit of Program Development and Support Funds at  
USAID/Kenya, Project No. 615-0510

The Office of the Regional Inspector General for Audit/Nairobi has completed its audit of the use of program development and support (PD&S) funds at USAID/Kenya, Project No. 615-0510. 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. Recommendations Nos. 1 and 2a are considered closed and require no further action. Recommendations Nos. 2b and 2c are resolved but will not be closed until completion of promised actions. Please advise me within 30 days of any additional information related to the actions planned or taken to implement recommendations Nos. 2b. and 2c.

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.

There was no separate appropriation for PD&S funds. Such 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, USAID/Kenya obligated PD&S funds totalling \$2,411,436.

## Audit Objective and Scope

The Office of the Regional Inspector General for Audit/Nairobi made an economy and efficiency audit of PD&S funds at USAID/Kenya. 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 by A.I.D. and Bureau for Africa criteria and (2) unneeded PD&S funds were being promptly deobligated.

The audit was made at USAID/Kenya and at the Regional Financial Management Center (RFMC), both located in Nairobi, Kenya (see Exhibit 1 ). The audit was made during the period December 1987 - May 1988. USAID/Kenya and RFMC officials were interviewed, files and financial reports were reviewed and related internal controls were tested. The review of internal controls was limited to the issues raised in this report.

The audit scope included PD&S funds totalling \$2,411,436 obligated and \$1,614,787 expended during fiscal years 1985 through 1987 (see Exhibit 2). Obligations totalling \$1,883,077 million and expenditures totalling \$1,238,321 were tested based on a stratified sample of (high dollar value) personal service contracts and a random sample of other obligations. The audit scope did not include PD&S funds 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

USAID/Kenya's use of PD&S funds did not fully conform to A.I.D. regulations and Africa Bureau guidance, and USAID/Kenya had not promptly deobligated unneeded funds. PD&S funds totalling \$172,467 had been obligated for activities which should have been charged to operating expense or project funds. The audit also determined that unspent PD&S funds totalling \$168,864 were unneeded and had not been promptly deobligated by USAID/Kenya, and an additional \$422,180 required review to determine continued need.

1. Some PD&S Funds Were Inappropriately Used - A.I.D. regulations and guidance specified the purpose and use for PD&S funds. USAID/Kenya officials used some funds for inappropriate purposes because officials broadly interpreted the criteria and guidance. As a result, about \$172,467 was used for purposes inconsistent with the intent and criteria related to those funds.

Discussion - A.I.D. regulations and guidance specified how A.I.D. funds, including PD&S funds, could be used. A.I.D. Handbook 18, Appendix D stated that "Program development and support refers to activities whose purpose is the identification, design, and evaluation of programs or projects/activities where such activities cannot be easily or appropriately charged to the individual project/activity." The Handbook further described PD&S purposes to be for:

- developing projects/activities, including prefeasibility and feasibility surveys;
- preparing sector studies broader in scope than an individual project/activity;
- evaluating completed project/activities (normally evaluation of an on-going project/activity should be charged to the project/activity);
- conducting sector evaluations and other evaluative studies broader in scope than an individual project/activity; and,
- conducting multicountry evaluations of programs, or components thereof, or conduct studies to develop indicators of progress of general use.

Except for limited use related to project evaluations of completed projects, A.I.D. regulations did not allow PD&S funds to be used to support approved on-going projects.

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 specified that PD&S funds could not be used for:

- support to an existing approved project;
- project pre-implementation activities, unless approved by the Africa Bureau Assistant Administrator;
- operating expense activities; and
- an activity which would exceed \$200,000, unless approved by the Africa Bureau Assistant Administrator.

PD&S funds were used by USAID/Kenya for several purposes inconsistent with A.I.D. and Africa Bureau guidance. Funds were used to implement and manage projects and programs, and to support agency management operations.

About \$139,363 was used to fund three personal service contractors whose duties included serving as the project officer or project manager on various projects or programs. In some cases, the contracts clearly specified that the duties related to managing and implementing such projects; while for others, the contractors performed such duties even though the contract did not specify such duties. The amount of time spent on performing such services varied from a full-time job to part-time involvement. For example, one contractor was funded to manage/implement the Commodity Import Program - a full-time job per contractual requirements. Another contractor was hired primarily to assist in designing and developing projects, but also served part-time as the project manager on two related projects.

Concerning support to Agency management operations, about \$5,000 was used to "clean up" the Mission's Participant Training Management System which the Mission had been required to have since 1985. Expecting an impact evaluation of the Mission's participant training program in 1987, the Mission used the \$5,000 to complete this system. Similarly, an additional \$21,164 was used to fund a contractor who primarily reviewed the Mission and Government of Kenya accounting systems for local currency, and reviewed proposed de-obligation of funds on two projects. Both these activities should have been funded from operating expenses.

USAID/Kenya officials agreed that some PD&S funds had been inappropriately used. For example, the publication of brochures, advertisements, and full-time contractor duties for monitoring/managing project or program implementation was considered inappropriate. However, the audit was unable to determine why the activities were still funded.

In other cases, Mission officials stated that they believed PD&S funds were appropriately used. For example, they stated that even though contractors were sometimes assigned project officer/manager duties, 70 to 80 percent of the time was devoted to appropriate project design and development activities. Concerning Agency management activities, they stated that PD&S funding was appropriate to update/organize participant training files since the data would be needed for the impact evaluation. Similarly, they stated that the contractor who reviewed the Mission's accounting systems also evaluated on-going project activities with a focus on possible redesign and provided financial analysis of proposed projects.

While noting USAID/Kenya rationale for using PD&S funds to fund those activities, the audit concluded that use was inappropriate based on A.I.D. guidance and criteria. More

convincing in determining reasons were statements that the activities funded were needed and other funding sources (operating expense and/or project funds) were scarce. Thus, the audit concluded that broad interpretations were made in order to fund the activities. In this regard, it was also found that USAID/Kenya used "action memorandum" to obtain the Mission Director's approval to use PD&S funds. Those memoranda, however, normally included a broad description of the activity and excluded justification or any citation of the regulations and/or criteria authorizing such use. Had such justification and citation been included, responsible officials may have questioned such use.

Because USAID/Kenya officials inappropriately interpreted guidance and criteria, some PD&S funds were inappropriately used. Overall, \$172,467 were used for some activities which should have been funded with operating expense or project funds.

#### Recommendation No. 1

We recommend that the Director, USAID/Kenya require that the documentation of future requests for program development and support funds include specific reference to A.I.D. regulations and Africa Bureau guidance which allows the use of the funds for the purposes requested and that the memorandum include a specific description of the activity to be funded.

Mission officials agreed with and implemented the recommendation before report issuance. However, concerning some examples in the report of inappropriate PD&S funds uses, Mission officials generally stated that RIG/A/N's interpretation of the criteria was too narrow. On two examples they maintained that since the majority of contractors' time was spent on appropriate activities, using PD&S for remaining agency management and project management duties was appropriate. For a financial analyst contractor, they stated all his duties were appropriate. Regarding project implementation actions, they stated that since the activity funded was after design but before project approval, using PD&S funds was appropriate. (The complete text of mission comments is shown in Appendix 1).

RIG/A/N agrees that the two contractors cited spent a majority of time on project design activities. However, the criteria states that no funds should be used to support approved on-going project or operating expense activities. Accordingly, to the extent that was done, PD&S funding was inappropriate. RIG/A/N disagrees that the financial analyst devoted full-time

to appropriate activities. The review of local currency accounting systems clearly related to on-going management problems the Mission and the host government had in accounting for local currency proceeds. Concerning project pre-implementation actions, RIG/A/N agreed with the Mission and changed the report accordingly.

2. Unneeded Funds Required De-obligation - A.I.D. regulations required that unneeded funds should be promptly identified and deobligated. USAID/Kenya had not deobligated funds unneeded for as long as three years because the Mission was not periodically reviewing the continuing need for unspent funds. As a result, unneeded funds totalling \$168,864 were not promptly deobligated.

Discussion - 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, 1985 [31 U.S.C. 1501] required the Agency Controller to attest annually to the continued need for unspent funds. A.I.D. Handbook 19, sections 2M, 2N and 2O 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.

The audit identified unneeded funds totalling \$168,864 that were obligated during fiscal years 1984 thru 1986 (see Exhibit 4) and had not been spent at the time of audit. The activities for which the funds were obligated were completed and the unspent funds were no longer needed. This amount included \$51,335 unspent from fiscal year 1984 and \$87,533 for fiscal year 1985; and \$29,996 for fiscal year 1986. In addition, unspent funds for fiscal year 1987 totalled \$422,180 and had not been adequately reviewed to determine continued need.

Some USAID/Kenya officials stated that reviewing and deobligating unspent funds received a lower priority than most functions at the Mission. This was because deobligating funds often resulted in the loss of their use to the Mission; therefore, there was no real incentive for the Mission to review them. Accordingly, the Mission had no effective procedures for periodically reviewing unspent funds.

The USAID/Kenya position ignores the legislative and A.I.D. requirements that unspent funds be continually reviewed and deobligated.

Because USAID/Kenya officials were not effectively reviewing unspent funds and promptly deobligating unneeded funds, USAID/Kenya was not effectively complying with legislative and regulatory requirements.

Recommendation No. 2

We recommend that the Director, USAID/Kenya:

- a. devise procedures and controls to ensure periodic review of unspent obligations to determine whether they were still needed and issue a Mission Order to that effect;
- b. review and deobligate unspent program development and support funds totalling \$51,335 for 1984; \$87,533 for 1985 and \$29,996 for 1986;
- c. review unspent 1987 program development and support obligations totalling \$422,180 and deobligated unneeded funds.

Mission officials disagreed that there was no systematic review of unspent funds, and also stated that some funds identified as available for deobligation were needed. The officials also stated that actions to close part 2a. of recommendation No. 2 have been completed.

RIG/A/N disagrees with USAID/Kenya officials statement that a systematic review was done. Discussions with RFMC officials revealed that while there was some on-going review of unspent funds, there was no documented detailed bi-annual reviews. Had such reviews been done, unneeded funds would have been identified earlier.

Concerning funds available for deobligation, further review with the USAID/Kenya Controller identified the continuing need for some additional amounts and the report was changed accordingly.

RIG/A/N reviewed USAID/Kenya actions relative to part 2a. of recommendation No. 2. and found the actions appropriate for closing the recommendations. Accordingly, part 2a. of recommendation No. 2 is closed upon report issuance.

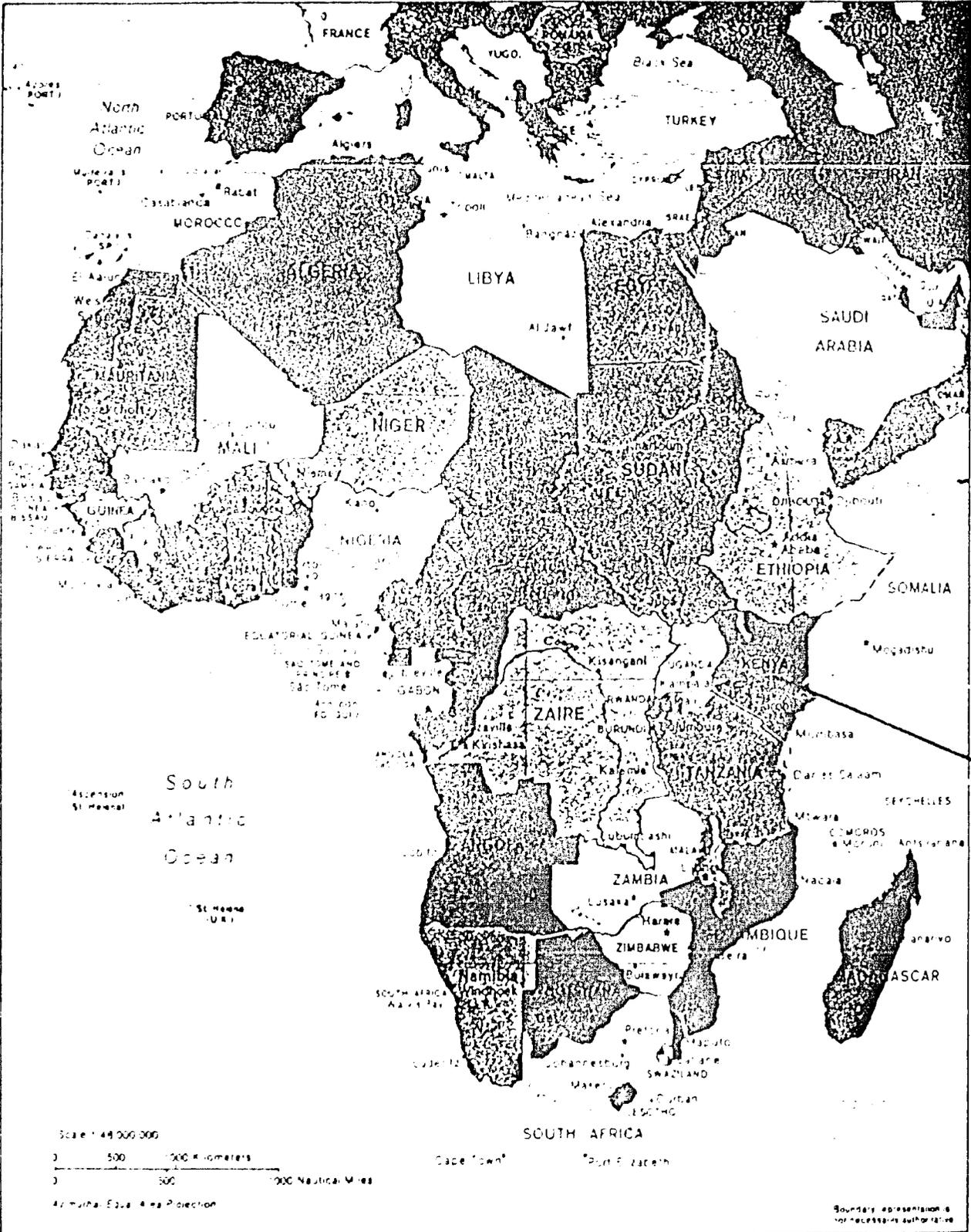
### Other Pertinent Matters

In 1986, the Mission approved the use of \$16,000 of operating expense funds to temporarily fund a PD&S activity until an allocation of PD&S funds was received to "reimburse" the operating expense account. Such a procedure is not permissible under A.I.D. regulations or legislation. Funds cannot be "borrowed" from one account until other funds become available. Accordingly, such a practice should not occur even on an exception basis. We recommend that the Mission not countenance such actions in the future.

AUDIT OF  
PROGRAM DEVELOPMENT AND SUPPORT AT  
USAID/KENYA

EXHIBITS AND APPENDICES

# Africa



USAID/Kenya PD&S Obligations  
Fiscal Years 1985 Through 1987  
(as of September 30, 1987)

| <u>Fiscal Year</u> | <u>Program Development and Support</u> |                    |                  |
|--------------------|--|--------------------|------------------|
|                    | <u>Obligated</u>                       | <u>Spent</u>       | <u>Unspent</u>   |
| 1985               | \$931,226                              | \$866,178          | \$ 65,048        |
| 1986 <sup>1/</sup> | 770,204                                | 627,867            | 142,337          |
| 1987               | 710,006                                | 120,742            | 589,264          |
| Total              | <u>\$2,411,436</u>                     | <u>\$1,614,787</u> | <u>\$796,649</u> |

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<sup>1/</sup> Excludes obligations and expenditures for local cost support.

Analysis of Selected PD&S Activities  
Questionable Obligations  
Fiscal Years 1985 Through 1987  
(As of September 30, 1987)

| <u>Description/Document No.</u>         | <u>Fiscal Year</u> | <u>Amount Obligated</u> |
|---|--------------------|-------------------------|
| Personal Services Contracts             |                    |                         |
| CO615-0000-S-4119-2                     | 1985               | 2,031                   |
| CO615-0510-S-01-4108                    | 1985               | 8,000                   |
| CO615-0510-S-02-4108                    | 1986               | 17,500                  |
| CO615-0510-S-00-4108                    | 1986               | 8,052                   |
| CO615-0510-S-00-7012                    | 1987               | 39,000                  |
| PIOT615-0510-3-50014                    | 1985               | 22,855                  |
| PIOT615-0510-3-50014                    | 1985               | 25,925                  |
| PIOT615-0510-3-50014                    | 1985               | 17,000                  |
| PIOT615-0510-3-50008                    | 1985               | 21,164                  |
| Advertisements/Commodity Import Program |                    |                         |
| PO615-0510-60324                        |                    | 1,371                   |
| PO615-0510-60325                        |                    | 1,350                   |
| PO615-0510-60326                        |                    | 971                     |
| Advertisements/Consultant               |                    |                         |
| PO615-0510-60353                        |                    | 183                     |
| PO615-0510-60352                        |                    | 165                     |
| Participant Training Files              |                    |                         |
| PO615-0510-70112                        |                    | 4,362                   |
| PO615-0510-70113                        |                    | 538                     |
| Private Sector Brochures                |                    |                         |
| PO615-0510-60389                        |                    | <u>2,000</u>            |
| TOTAL                                   |                    | <u>\$172,467</u>        |

PD&S Funds Obligated  
But Not Needed  
Fiscal Years 1984 Through 1987  
(As of May 1988)

| <u>Fiscal Year/ Budget Purpose</u> | <u>Amount (Dollars)</u> |
|------------------------------------|-------------------------|
| <u>FY 1984</u>                     |                         |
| GDA 8421615AC01                    | \$ 22,977               |
| GDA 8421615BG61                    | 23,250                  |
| GDA 8421615CG61                    | 5,108                   |
| Total 1984                         | <u>\$51,335</u>         |
| <u>FY 1985</u>                     |                         |
| GDA 8521615 AG13                   | 33,817                  |
| GDA 8521615 BG13                   | 30,251                  |
| GDA 3521615 CG13                   | 17,532                  |
| GDA 8521615 DG13                   | 5,933                   |
| Total                              | <u>\$87,533</u>         |
| <u>FY 1986</u>                     |                         |
| GDA 8621615 AG63                   | 24,075                  |
| GDA 8621615 DG63                   | 3,345                   |
| GDA 8621615 EG63                   | 2,576                   |
| Total 1986                         | <u>\$ 29,996</u>        |
| Total 1984, 1985, 1986             | <u>\$168,864</u>        |

# memorandum

DATE: August 25, 1988

REPLY TO  
ATTN OF: Steven W. Sinding, Mission Director *SW*

SUBJECT: Draft Audit Report PD&S

TO: David M. Conner, RIG/II/N

We have reviewed the subject draft audit report and, although we agree in principle with the intent of the audit and find the recommendations made therein to be actionable, we urge modification of some of the examples chosen to illustrate your conclusions.

Overall, the Mission believes that RIG is interpreting the possible uses of PD&S funds somewhat narrowly. Bureau Guidance allows PD&S to be utilized for studies, workshops and evaluations related to overall program development. RIG appears to interpret guidelines to allow such activities only as they relate to project design and development.

Most of the uses cited as improper for PD&S funding were for PSCs. In only one case does the Mission feel that a PSC was inappropriately funded with PD&S (i.e. CO615-0510-S-000101-4108); in May 1987 the Mission amended that contract changing the source of funding to OE Trust Funds. For the other PSCs included in the draft report, Exhibit 3, the Mission believes that, although not every specific duty was precisely within the approved uses of PD&S, the great preponderance of the work was appropriate for PD&S funding.

Specifically:

- a. PIO/T. 615-0510-3-50014)  
PIO/T 615-0510-3-50008) (Contractor, Vicky McDonald)

The Mission feels that Ms. McDonald's primary duties (and 70 to 80 percent of her time) involved project design related activities and thus fully conformed with Africa Bureau guidelines on permissible uses of PD&S funds. Ms. McDonald's statement of duties/scope of work show (from

14

-2-

one of the applicable contracts, ie. 615-0510-C-00-5065) that the purpose of the contract, "is to provide assistance to the USAID/Kenya Mission...for the design of projects to be developed or amended during a two year period." The opening statement on this contract's scope of work says, "The contractor shall assist the Mission with the preparation of Project Identification Documents (PID), PPs, PP amendments, and PAAD's". While non-project design duties were assigned to the contractor, the majority of her time was devoted to project design work which is an approved function under PD & S guidelines.

b. C0615-0510-S-7012 - Mildred Howard

Our view is similar to that cited in a. above: that the contractor spent 70 to 80 percent of her time in project design functions, and/or to develop information/data which was to be incorporated in the CDSS. Again, her contract states: "...contractor will provide services related to the development of a population/health strategy for the PH Office and provide technical services for the development, testing and evaluation of new PH sector initiatives..."

c. C0615-0501-S-00-5040 - Gene McCoy

We think that all services provided by the contractor were for Project/Program design and for evaluation. The scope of work was for two types of duties: to evaluate various ongoing project activities with a focus on possible needs to redesign and secondly, to provide financial analysis for preparation of PAADs and Project Papers. The Contractor reviewed the PVO Co-financing project with VADA which has since been redesigned. He also worked on the financial analysis for preparation of an ammended PAAD for the Agriculture Sector Grant, reviewed financial data relating to Family Planning Services Support (FPSS) Project Paper and prepared the financial analysis section of that Paper. These functions are clearly within the Handbook guidance for the use of PD&S funds.

In the case of pre-implementation action noted on Pg 7 of the draft this obligation action occurred in May 1987 while the Mission was awaiting authorization from AID/W for the Private Enterprise Development project. Since the obligation action occurred prior to formal project authorization, the Mission's opinion is that it is a post-design and pre-authorization action permitted under PD&S use criteria.

-3-

The draft "determined that unspent PD&S funds totalling \$293,051 were unneeded and had not been promptly deobligated by USAID/Kenya". While we agree that the review of these unspent funds was not formalized we take issue with RIG's determination that it was not systematic. RFMC was responsible for USAID/K accounting during the period the audit covered. Their 'system' for reviewing unliquidated balances was ongoing and not a separate activity. Furthermore, we disagree that funds were "unneeded". In fact the Mission has performed an additional review and determined that as of August 1, 1988 \$293,051 was not available for deobligation because additional charges were made to those prior year funds.

Action to close recommendation No. 1 was taken on August 1, 1988 by means of memorandum from Mission Controller to Division Chiefs (attached). Based upon this we request recommendation No. 1 be closed upon issuance of the report.

In respect to recommendation 2(a); with the arrival of the USAID/K Controller a formal procedure was established on August 11, 1988 (attached). Prior to its publication, this policy was reviewed by all USAID/K Division Chiefs and concurred in by me. In compliance with this procedure, Controller's Office, in conjunction with Project Officers, will review unliquidated obligations for both current and all prior years during September, 1988. We will advise RIG when this is completed in order to close recommendations 2(b)&(c).

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