

PI-AR-716

ASW-02224

AUDIT OF
PROGRAM DEVELOPMENT AND
SUPPORT FUNDS AT THE REGIONAL
ECONOMIC DEVELOPMENT SERVICES OFFICE
FOR EAST AND SOUTHERN AFRICA
PROJECT NO. 623-0510

AUDIT REPORT NO. 3-623-88-25
August 31, 1988

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09675

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

August 31, 1988

MEMORANDUM FOR ACTING DIRECTOR, REDSO/ESA, Monica K. Sinding

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



SUBJECT: Audit of Program Development and Support
Funds at the Regional Economic Development
Services Office for East and Southern Africa,
Project No. 623-0510

The Office of the Regional Inspector General for Audit/Nairobi has completed its audit of program development and support (PD&S) funds at the Regional Economic Development Services Office for East and Southern Africa, Project No. 623-0510. 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. Recommendation No. 1 and part 2a. of recommendation No. 2 are considered resolved but need further action before they can be closed. Part 2b. of recommendation No. 2 is considered resolved, and closed upon report issuance since action was completed during the audit. Part 2c. of recommendation No. 2 is unresolved. Please advise me within 30 days of any additional actions taken to implement recommendation No. 1 and part 2a. of recommendation No. 2, and any further information you might want us to consider on part 2c. of recommendation No. 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.

- 1

There was no separate appropriation for PD&S funds. 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 \$2,251,082 were obligated by the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA). Of that amount, 97 percent was obligated to buy contractors' services and 3 percent was obligated to support workshops and conferences.

Audit Objectives 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 REDSO/ESA. 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) unneeded PD&S funds were being promptly deobligated.

The audit was made at REDSO/ESA and the Regional Financial Management Center, (RFMC) both located in Nairobi, Kenya (see exhibit 1). The audit was made during the period January - May 1988. REDSO/ESA and RFMC officials were interviewed, files and financial reports were reviewed and related internal controls were tested.

The audit scope included \$2,251,082 of PD&S funds obligated for fiscal years 1985 through 1987 (see Exhibit 2) of which obligations totalling \$2,133,719 and expenditures totalling \$1,392,181 were tested. The audit scope excluded PD&S funds totalling \$410,000 obligated for local cost support in fiscal year 1986. These funds were available for operating expense uses on a one-time basis and were not true PD&S funds. Tests of internal controls were limited to the findings presented in this report. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit showed that REDSO/ESA's use of PD&S funds did not conform to A.I.D. regulations and guidance, and that unneeded funds were not promptly identified and deobligated. Accordingly, the report makes recommendations to improve internal controls to insure the proper use of funds and prompt deobligation of unneeded funds.

During the audit, REDSO/ESA began making improvements in its use of PD&S funds. Such improvements resulted from additional guidance received from A.I.D./Washington.

1. Management of PD&S Funds Needed Improvement - A.I.D. regulations and guidance specified that PD&S funds should be used for the identification, design, and evaluation of programs or projects. However, REDSO/ESA PD&S funds were used for inappropriate purposes, because REDSO/ESA officials broadly interpreted A.I.D. criteria and guidance. As a result, REDSO/ESA inappropriately funded various contractor activities with PD&S funds rather than operating expense and/or project funds.

Discussion - 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:

- 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 conducting 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. This was because such costs should be funded with project funds provided through Congressional appropriations.

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. Specific restrictions on the use of PD&S funds included prohibitions on using funds 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.

REDSO/ESA officials used PD&S funds to buy contractors' services which were inappropriate under existing A.I.D. and Africa Bureau guidance. In a few cases, inappropriate contractor activities constituted much of the contractors duties (50 percent or more); however, in most cases inappropriate activities were residual (less than 50 percent) to the time spent on appropriate activities. Overall, the audit did not quantify the total time devoted to inappropriate activities due to the difficulty and time required to document all services performed by former and current contractors. However, funds totalling \$1,872,410 were used to hire contractors who performed at least some activities inconsistent with existing criteria (see Exhibit 3).

Inappropriate contractor activities included technical assistance to on-going programs/projects; training; project officer duties; project management; mission management activities; and project/program monitoring. For example, \$66,000 was obligated to fund a crop pest specialist who devoted about 90 percent of his time to monitoring regional research projects; providing technical assistance to various Missions on pesticide use and management; and acting as a regional liaison officer between REDSO/ESA, A.I.D./Washington, international research centers, various foreign ministries, and various international donors. \$104,163 was used to hire a regional Food for Peace Officer whose primary duties were to assist Mission in implementing, redesigning, and solving logistical problems in on-going programs \$55,358 was used to hire a forestry advisor who spent about 50 percent of his time implementing agroforestry training. Also, \$61,000 was used to hire a Population and Health Assistant who assisted in implementing on-going projects.

REDSO officials acknowledged that some PD&S funds were inappropriately used, and during the audit took steps to seek other funding for some contractors' activities. Officials stated that misuse was unintentional and resulted from broad interpretations of criteria. In this regard, the audit determined that even though written justification was required to use PD&S funds, the action memoranda did not necessarily

include citing the regulations or guidance which authorized such use. Such a procedure could have helped to ensure greater consideration of applicable regulations and guidance.

Because of REDSO/ESA broad interpretation of criteria, PD&S funds were used to fund activities inconsistent with prescribed uses. As a result, REDSO/ESA was not complying with A.I.D. regulations and/or Africa Bureau guidance.

Recommendation No. 1

We recommend that the Director, Regional Economic Development Services Office/East and Southern Africa require that action memoranda for program development and support funds include specific reference to A.I.D. regulations and Africa Bureau guidance and the rationale justifying the use of such funds.

Management officials agreed with the recommendation. However, they believed our interpretation of the guidance was too narrow regarding some contractor activities. Specifically they stated that project monitoring by the crop pest specialist and program monitoring by Food for Peace officers should be considered appropriate activities. They noted that the Bureau guidance included "use of PD&S funds for project-level evaluations and financial management/audit activities not otherwise budgeted for within projects including the development of project monitoring and accounting, data collection and evaluation systems." They also noted that unlike bi-lateral missions, REDSO/ESA did not have access to project funds to discharge all its responsibilities; operating expense funds were limited; and that REDSO/ESA had inherited monitoring responsibilities from AID/Washington for a number of regional grants to international agencies, which by their nature did not include funding for certain required A.I.D. functions such as monitoring and evaluation. Thus, REDSO/ESA had no obvious alternative to using PD&S funds. (See Appendix 1 for full text of comments).

RIG/A/N's analysis considered unbudget project evaluations to be an appropriate use of PD&S funds and no contractors' activities were questioned on that basis. Concerning monitoring, RIG/A/N considered the actual monitoring inappropriate, since the Bureau guidance only allowed for the "development of monitoring systems". Regarding REDSO/ESA's comment on limited operating expense and project funds, RIG/A/N recognized the constraints imposed in this regard. However, RIG/A/N cannot agree that such constraints justify using other funds inappropriately.

2. Improved System for Reviewing Unspent Funds Was Needed - Legislation and A.I.D. regulations required that unneeded funds be promptly identified and deobligated. Required reviews of

unspent funds were ineffective since that activity received a low priority. Consequently, funds totalling more than \$79,047 were not promptly identified and deobligated; and REDSO/ESA and RFMC were not effectively complying with legislative and regulatory requirements.

Discussion - 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 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.

During fiscal years 1985 through 1987, REDSO/ESA obligated PD&S funds totalling \$2,251,082 (see Exhibit 2). As of September 30, 1987, \$785,865 of that amount was unspent; including \$126,187 obligated in fiscal year 1985; \$174,192 obligated in 1986; and \$485,486 obligated in 1987. Of the unspent funds, \$79,047 for fiscal years 1985 and 1986 (see Exhibit 4) was unneeded and should have been deobligated at September 30, 1987 since the purposes for which they were obligated had been completed. In addition, some of the unspent funds for 1987 were also unneeded and should have been deobligated.

At REDSO/ESA the review of the continuing need for unspent funds is a joint responsibility of REDSO/ESA and RFMC/Nairobi officials, since REDSO/ESA did not have its own Controller staff. Even though RFMC/Nairobi had ultimate responsibility for the review process, REDSO/ESA had a responsibility also to ensure timely action was taken. According to some officials the review of unspent funds received a low priority since deobligated funds became unavailable for REDSO/ESA's use. As a result, even though there was some on-going continuous review of unspent funds, such reviews were inadequate to ensure prompt identification and deobligation of unneeded funds. Similarly, REDSO had no requirement for periodic review by project officers such as during the quarterly project implementation review. In addition, even though a required 1311 certification was made, no documentation existed to show that an effective review of unspent funds was performed to support such a certification. Had such reviews been performed, unneeded funds would have been identified and deobligated earlier.

Because ineffective reviews of unspent funds were conducted, unneeded funds totalling more than \$79,047 were not promptly identified and deobligated. Failure to do so also resulted in non-compliance with regulations.

Recommendation No. 2

We recommend that the Director, Regional Economic Development Services Office/East and Southern Africa,

- a. devise procedures for documented periodic reviews 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 an Administrative Notice to that effect;
- b. deobligate unneeded program development and support funds totalling \$79,047 for 1985 and 1986; and
- c. review unspent 1987 program development and support funds and deobligate unneeded funds.

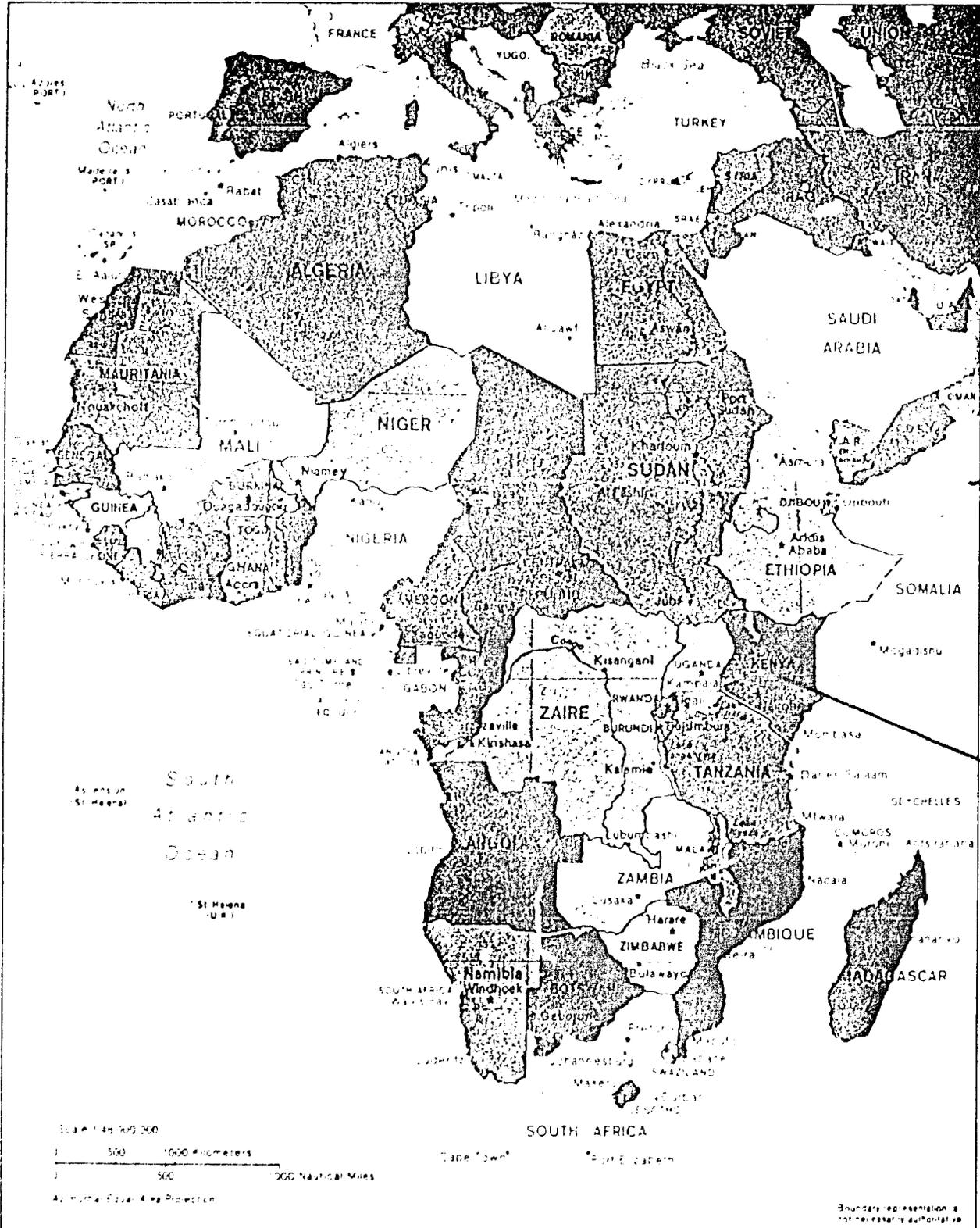
Management officials agreed to implement recommendation part 2a even though the officials disagreed with our finding that reviews of unspent funds were not being made since such reviews were given a low priority. The officials also noted that some funds we identified for deobligation were for local cost support and should be excluded from the report. Because the officials, disagreed with the finding, they disagreed with the need to implement recommendation parts 2b. and 2c. (See Appendix 1 for full text of management comments).

Based on management comments, the report was changed to indicate ineffective reviews of unspent funds were performed rather than no reviews were performed. Similarly, local costs support funds were deleted from the report. Concerning recommendation part 2b., RIG/A/N considers that part to be resolved and closed, even though management officials disagreed, since the funds identified had all been deobligated before report issuance. Concerning recommendation part 2c., the recommendation is considered unresolved.

AUDIT OF
PROGRAM DEVELOPMENT AND SUPPORT FUNDS
AT REDSO/ESA

EXHIBITS AND APPENDICES

Africa



REDSO/ESA
PD&S OBLIGATIONS AND EXPENDED AMOUNTS
(As of September 30, 1987)

<u>Fiscal</u> <u>Year</u>	<u>Amount</u> <u>Obligated</u>	<u>Amount</u> <u>Expended</u>	<u>Unexpended</u> <u>Balance</u>
1985	\$ 733,869	\$ 607,682	\$ 126,187
1986 ^{1/}	709,367	535,175	174,192
1987	<u>807,846</u>	<u>322,360</u>	<u>485,486</u>
	<u>\$2,251,082</u>	<u>\$1,465,217</u>	<u>\$ 785,865</u>

^{1/} Excludes local cost support charged as PD&S obligations and expenditures.

Inappropriate/Questionable
REDSO/ESA PD&S Activities
Fiscal Years 1985 Through 1987
(As of September 30, 1987)

<u>Contract No.</u>	<u>Amount Obligated</u>
623-0135-S-00-3001	\$ 40,420
623-0000-S-00-2010	112,180
623-0000-S-00-6014	160,000
IKE-5102-P-AG-4202	145,550
623-0000-S-00-6009	237,558
623-0135-S-00-3003	176,942
623-0000-S-00-7011	100,000
623-0510-S-00-5023	61,000
623-0135-S-00-3010	278,291
623-0000-S-00-6004	103,336
623-0510-S-00-5017	104,163
623-0698-S-00-1010	55,358
623-0000-S-00-7027	60,000
623-0000-S-00-7002	133,132
623-0000-S-00-6021	66,000
623-0000-S-00-7029	38,480
Total	<u>\$1,872,410</u>

REDSO/ESA PD&S Funds
Obligated But Not Needed
Fiscal Years 1985 Through 1987

<u>Year and Document No.</u>	<u>Amounts</u>		
	<u>Obligated</u> <u>at 9/30/87</u>	<u>Spent</u> <u>at 7/28/88</u>	<u>Not Needed</u> <u>at 7/28/88</u>
<u>1985</u>			
623-0510-S-00-5018	25,000	23,928	1,072
623-0510-S-00-5009	6,836	5,457	1,379
1KE-5102-P-AG-4204	80,392	21,140	59,252
1KE-5102-P-AG-4204	25,608	9,852	15,756
<u>1986</u>			
CO 623-0135-S-00-3003-08	39,865	39,517	348
CO 623-0135-S-00-3010	14,837	13,597	1,240
Totals 1985 and 1986	<u>\$192,538</u>	<u>\$113,491</u>	<u>\$79,047</u>

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICE
FOR EAST AND SOUTHERN AFRICA (REDSO/ESA)

United States Postal Address
U.S.A.I.D.
BOX 221
APO NEW YORK 09675

August 26, 1988

International Postal Address
POST OFFICE BOX 30261
NAIROBI, KENYA

MEMORANDUM

FOR: David M. Connor, RIG/A/N
FROM: Monica K. Sinding, Acting Director, REDSO/ESA
Albert Hulliung, Director, RFMC
SUBJECT: REDSO/ESA - Draft Audit of PD & S Funds

Mus -

We appreciate the opportunity to discuss the subject audit in an earlier draft two weeks ago. The purpose of this memo is to respond to the August 15, 1988 draft version of the report by re-iterating some of the points we felt we had made.

In our view, the analytical portion of the audit would be more accurate and hence more useful if further consideration were given to the following observations:

1. The draft repeatedly defines program development and support as appropriate for "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." We find this definition overly narrow. State 016959 (January 2, 1988) outlines Africa Bureau policy, management, programming, and reporting guidance for PDS funds. It defines four descending Bureau priorities. While they are primarily directed to bilateral Missions and hence stress program design, they include project support and evaluation. Specifically, priority 3 includes "use of PD & S funds for project-level evaluations and financial management/audit activities not otherwise budgeted for within projects including the development of project monitoring and accounting, data collection and evaluation systems." REDSO/ESA Administrative Notice No. 88-A-02 (January 21, 1988) incorporates this Bureau guidance verbatim. In our view, were the Bureau's definition of appropriate uses for PD & S funds used in the draft audit, certain REDSO uses of PD & S funds might no longer be characterized as "inappropriate." In particular, the duties of REDSO's PD & S-funded Crop Pest Specialist might be interpreted quite differently.

2. The draft fails to acknowledge that, unlike a bilateral Mission, REDSO does not have access to project funds to discharge all of its responsibilities. REDSO's ABS approves certain specific activities in the four country programs it manages (Mauritius, Seychelles, Comoros, and Djibouti). Its OE allocation is barely adequate to permit it to discharge this important function -- namely designing and monitoring these programs, -- as well as its primary function of servicing twenty Missions in the East and Southern Africa region. Finally, REDSO inherited monitoring responsibilities for a number of regional grants to international agencies, which by their very nature do not include funding for certain required AID functions (e.g. grant monitoring and evaluation). Thus REDSO did not have an obvious alternative to asking PD & S funded-PSCs to assist USDHs in discharging the full range of their responsibilities through the provision of expert advice. This is particularly evident in the case of of the Crop Pest Specialist who helps REDSO comply with "AID policy aimed at assisting LDCs in designing and operating environmentally sound integrated pest management systems and procedures in which pesticides are used only when necessary." It also pertains to REDSO's responsibilities for monitoring various Food for Peace programs which are not project assistance.

3. The draft questions whether 1985-87 REDSO PD & S-funded contracts adhere to 1988 Bureau guidance for the use of PD & S funds. In fact, only one of the four contracts which are called into question is current. Two others terminated more than two years ago. A third was converted from PD & S to project funding almost immediately following the receipt of the 1988 guidance.

4. The draft states that "funds totalling \$1.8 million were used to hire contractors who performed some activities inconsistent with PD & S criteria." This assertion is grossly misleading. The four contracts which have been questioned had a total value of \$286,521. Only a portion of the activities undertaken by these contractors was deemed questionable. A more accurate assertion would therefore be that "funds totalling \$286,521 were used to hire contractors who performed some activities inconsistent with PD & S criteria." It would then be a matter of interpretation whether REDSO had made questionable use of a small portion of its PD & S allocations over the 1985-87 time period.

5. We do not agree with the draft report implication that 1311 reviews were not being made or were given a low priority. Unliquidated balances were being reviewed on a continuing basis and the Annual Certification required by law was made by RFMC. Notwithstanding this, we agreed that a more formal process is in order and that past procedures needed strengthening. This need was clearly identified and reported as a weakness in RFMC's 1987 Internal Control Assessment and corrective action is ongoing.

6. We also do not agree with the inferences that \$144,525 should have been deobligated on September 30, 1987 and that the FY 87 balance of \$485,486 was not subjected to an adequate 1311 review at year end. As mentioned previously, the \$144,525 includes amounts which are not PD & S (e.g., local cost support) and all amounts were certified as being valid obligations as of September 30, 1987. The FY 87 balances, most of which were active at the end of the year, were also determined to be valid obligations as of September 30, 1987.

With respect to the draft Recommendations, we offer the following observations:

1. We find Recommendation No. 1(a) acceptable and feel that it can be closed by modifying REDSO Administrative Notice 88-A-02 to ensure that the instructions for preparing PIO/Ts for PD & S-funded activities are consistent with Bureau PD & S guidance.

2. We consider Recommendation No. 1(b) to be misdirected. In recognition of the funding constraints which inhibit the two REDSOs' ability to discharge their full range of responsibilities, the Bureau (AFR/DP) is designing an African Development Support Project which will allocate funds to them for longer-term, more general purpose contracts. It would not appear to make sense for us to duplicate the Bureau's effort; nor does our approved ABS propose funding in REDSO's OYB for this purpose.

3. Although we feel that current procedures are adequate, we have no objection to Recommendation No. 2(a). We feel we can close it with a further modification of REDSO Administrative Notice No. 88-A-02 calling for REDSO's PD & S-funded activities to be reviewed during our semi-annual PIR preparation/review process. This will enable us to better forecast those instances where an excessive amount of funds may have been obligated and to alert RFMC to possible deobligations of unneeded funds.

- 4 -

4. As indicated above, we do not agree with the findings which lead to Recommendation Nos. 2(b) and (e) and therefore do not agree with the Recommendations. For your information, the unliquidated balances have been subjected to the on-going 1311 process and some of the balances have been deobligated.

REPORT DISTRIBUTION

Director - REDSO/ESA	5
AA/AFR	1
AA/M	2
AFR/CONT	1
AFR/EA/KUTRB	1
AA/XA	2
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
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
RIG/A/Manila	1
RIG/A/Dakar	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
RIG/A/Washington	1