PD-ABA-084
ISN 62882

# AUDIT OF
# THE FAMILY HEALTH SERVICES PROJECT
# IN NIGERIA

Project No. 620-0001

Audit Report No. 7-620-90-01

October 16, 1989

UNITED STATES OF AMERICA
**AGENCY FOR INTERNATIONAL DEVELOPMENT**
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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October 16, 1989

MEMORANDUM FOR: A.I.D. Affairs Officer Henry O. Merrill

FROM: Paul E. Armstrong, RIG/A/Dakar

SUBJECT: Audit of the Nigeria Family Health Services Project (Audit Report No. 7-620-90-01)

The Office of the Regional Inspector General for Audit Dakar, has completed its audit of the Family Health Services Project in Nigeria. Five copies of the audit report are enclosed for your action.

We appreciate your comments on the draft report. We have revised the report based on many of your suggestions, and included other comments at appropriate places in the text. Your comments are included in their entirety as Appendix 1.

The report contains four recommendations, two of which have been resolved. One recommendation relating to the local currency bank account remains unresolved because bank statements for several missing months promised by FPIA have still not been received as of report issuance. Another recommendation was added after the draft report was issued.

Please let me know within 30 days of any actions taken to resolve and close the recommendations. I appreciate the cooperation and courtesy extended to my staff during the audit.

## EXECUTIVE SUMMARY

The largest country in Africa, Nigeria, has 105 million people and an annual growth rate of 3.3 percent. Growth at the current rate will increase the population to about 450 million people in 50 years. To better control the growth, A.I.D. introduced in July 1987, a five year Family Health Services project (No. 620-0001) that will cost $100 million. A.I.D. will grant $67 million and the Nigerian government will provide in-kind assistance estimated at another $33 million. As of the end of calendar year 1988 about $4.2 million in A.I.D. expenditures had been made.

Due to the limited amount of expenditures, it was still too early to conclusively measure the adequacy of project progress. Nevertheless, the audit disclosed weak internal controls over local currency generations and the commodity distribution system. For example, neither the AAO nor the responsible contractor were able to provide complete financial data regarding the amount of sales proceeds in one account because the account was controlled by a sub-contractor who was not responsive to requests for financial data. Also, about $100,000 in local currency generated from these private sector commodity sales were unaccounted for. About $48,000 in disbursements from one account were made without obtaining required AAO approval. Another $1.4 million in project commodities had not been adequately safeguarded. Also, problems were found in the areas of delegation of authority and sufficiency of staff. Finally, there was an inadequate reporting of host country contributions.

The AAO/Lagos developed a better financial reporting format during the course of the audit, and undertook immediate corrective actions in other areas. We have made a number of recommendations designed to strengthen some other areas which might otherwise become problems later in the project.

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# AUDIT OF
# THE FAMILY HEALTH SERVICES PROJECT
# IN NIGERIA

## PART I - INTRODUCTION

### A. Background

Nigeria, with a population of 105 million people and an annual growth rate of 3.3 percent, has the largest population of any country in Africa and is also one of the fastest growing countries in the world. At this annual rate of growth, Nigeria's population will double in twenty-three years. If the population continues to grow at the current rate, Nigeria, in about 50 years, will have as many people (454 million) as currently inhabit all of sub-Saharan Africa.

In order to implement family planning policies and programs in Nigeria, A.I.D. authorized a five year Family Health Services Project (620-0001) on July 7, 1987. Its purpose was to increase the acceptability and the availability of integrated family planning services throughout Nigeria in both the private and public sectors. This represents one of the largest A.I.D.-funded assistance projects in Africa.

The A.I.D. Affairs Officer (AAO) and the Special Projects Officer, the only two A.I.D. direct hires, were responsible for overall project monitoring in the field. In addition, a project coordinator (personal services contractor) was responsible for planning, administering, monitoring, and coordinating all project activities. The Regional Economic Development Services Office/West and Central Africa (REDSO/WCA) in Abidjan, Ivory Coast supported the AAO/Lagos providing accounting, contracting and supply services.

Total project costs were estimated at about $100 million, with A.I.D. providing a $67 million grant and the host government providing about $33 million in-kind. Of the A.I.D. funding, about $41.2 million was committed to five prime contractors for technical assistance (see Exhibit 1). The remaining $25.8 million in the grant was allocated as follows: $17 million for contraceptive commodity purchases, and $8.8 million for project support costs. Project expenditures were about $4.2 million as of December 31, 1988.

### B. Audit Objectives and Scope

The Office of the Regional Inspector General/Audit/Dakar (RIG/A/D) made a performance audit of the Family Health

Services Project in Nigeria at the request of AAO/Lagos. The audit objectives were to determine whether: 1) the project was accomplishing its intended objectives, 2) A.I.D. and implementing contractors complied with applicable laws and regulations, and 3) internal control over the commodity inventory and distribution system was adequate.

Preliminary findings were identified by the auditors, and the AAO in March 1989 began corrective action in a cable to all implementing contractors (see Exhibit 2).

The audit was conducted at the AAO in Lagos, Nigeria. The audit team reviewed and analyzed project documentation, judgmentally sampled and tested transactions, held discussions with A.I.D. officials, technical contractors from the involved PVOs, and officials representing the Federal Military Government of Nigeria. Site visits were made to observe the family planning commodity inventories. The scope of the audit was limited because Family Planning International Assistance did not provide all necessary records to show the deposits and uses of local currencies generated to support this project (see Finding 1).

As a result, the audit could neither determine the accuracy nor the propriety of the local currency transactions. The audit covered about $4.2 million in total expenditures made between July 1987, and December 1988. The review of internal control and compliance was limited to the findings in this report. Audit field work was completed in May 1989. The audit was made in accordance with generally accepted government auditing standards.

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## PART II - RESULTS OF AUDIT

Some initial organizational delays caused the project to fall behind schedule. These problems were corrected, and the project was progressing towards its intended objectives. However, since only $4.2 million of the $67 million in project funds had been spent, it was still too early to measure the adequacy of the progress. Nevertheless, the audit disclosed problems in the following areas; (1) weak internal controls over local currency generations, and the commodity distribution system, and (2) delegation of authority and financial staffing needs. Additional problem areas were discussed in the report with respect to the financial reporting of data by the implementing prime contractors and by AID/Washington, and accountability of host government contributions. Specific recommendations were made to the Mission to resolve the problems by improving internal controls over revenues, commodities, and the provision of adequate management authority and financial staffing.

## A. Findings and Recommendations

### 1. Internal Control Over Contraceptive Sales Revenues Was Inadequate

The A.I.D. Mission did not monitor, as required, the local currency account containing revenues generated from the sale of contraceptives. Monitoring was not possible since Family Planning International Assistance, the responsible contractor, was not maintaining adequate records. As a result, internal controls over the $5 million in anticipated revenues were inadequate. Auditors estimated that about $100,000 in local currency generated from private sector commodity sales were unaccounted for as of May 1989. Also, an estimated $325,000 in interest revenues will be lost over the life of the project, unless an interest-bearing account is established, as encouraged by A.I.D. policy. Additionally, FPIA reported financial data to RIG/A/D which included about $48,000 reportedly spent for clearing costs and local transportation without the required consent of AAO/Lagos.

Discussion

A.I.D. Policy Determination No. 5, Supplemental Guidance on Programming Local Currency states that, once bank accounts for local currency funds generated under A.I.D.-financed projects are established, they must be carefully monitored by the Mission to ensure adequate management controls over project funds. The policy also favors that local currency be placed into interest-bearing accounts in a deposit-taking institution, with earned interest programmed as if it were principal. Under this project, a provision in the contract prohibited the implementing prime contractor, Family Planning International Assistance (FPIA), from using the funds without A.I.D. concurrence.

FPIA in conjunction with their subcontractor, Sterling Products Nigeria Limited (SPNL), were expected to generate about $5 million in revenues over the life of the project from the sales of family planning contraceptives allocated to the private sector. This money was to be deposited in a bank account until, with the concurrence of AAO/Lagos, it was used to support project objectives.

At the time of the audit, there was no A.I.D. project monitoring over the local currency revenues derived from the sale of contraceptives. Neither the AAO/Lagos nor the FPIA

representative in Lagos could provide the auditors with information on how much money was in the accounts nor how many accounts had been opened. FPIA was not maintaining records on the bank accounts. Under a predecessor project, FPIA had subcontracted responsibility for its bank accounts to SPNL and the arrangement continued under the current project. Consequently, to obtain information for the audit, FPIA had to work through SPNL.

AAO/Lagos was not receiving any bank statements or other account information from either FPIA or SPNL. The AAO first requested this information from FPIA on March 20, 1989. It was then again requested on April 10, 1989 without success.

Bank Account Information Unavailable

During the audit, SPNL would not release information about the bank accounts without the consent of the FPIA headquarters in New York City. The auditors sent a cable on April 27, 1989 to FPIA in New York requesting copies of available bank documents by June 10, 1989 in order to audit the accounts. Further, the auditors discussed the problem on the telephone with FPIA officials in New York who promised to provide the information. On June 14, 1989, RIG/A/Dakar received some of the requested information, but some bank statements were missing which FPIA stated they would provide later. Additional bank statements were received from FPIA on August 25, 1989. However, there were still some missing statements which FPIA agreed to provide to both AAO/Lagos and RIG/A/Dakar. FPIA reported to RIG/A/D that SPNL was working with the bank to obtain statements for the following months: December 1986, May & August 1987, April & November 1988, and January, June & July 1989. Based on the previously described difficulties in obtaining information, we do not believe that SPNL should be handling this account for FPIA.

Planning Needed For Use Of Local Currencies

The project had not developed any plans for the use of local currency even though the project paper provided that the funds would be used for critical activities to support the overall family planning movement. FPIA asked A.I.D. for permission to use the local currency to pay for (1) the import clearance of shipments of contraceptive commodities through the point of entry, (2) transport to the SPNL warehouse, and (3) other costs incurred by SPNL during the first year. In addition, FPIA sought AAO/Lagos concurrence to utilize local currency in lieu of U.S. dollar

disbursements to Nigerian subcontractors and to pay local office expenses of their regional office in Nigeria. A.I.D. had not reached a conclusion on these requests at the time of the audit.

The local currency revenues were not deposited by FPIA into an interest-bearing account. FPIA had not considered interest-bearing accounts even though there was no agreed-upon use for the funds in the immediate future. The local currency was not deposited into an interest-bearing bank account, because FPIA was still operating under a prior agreement with SPNL which did not call for interest-bearing accounts. The prior agreement between FPIA and SPNL controlled a similar arrangement under a predecessor A.I.D. project.

Internal controls were inadequate to account for the $5 million in anticipated revenues. In our opinion, FPIA was slow in providing us the necessary information because SPNL was having difficulty identifying the revenues generated for the project. As of July 31, 1989, the project had generated about the equivalent of $100,000 in local currency from the private sector, but it was unaccounted for by A.I.D., and thus not programmed to further project goals. Also, the project will lose about $325,000 in interest revenues which could be generated over the life of the project. Additionally, there was an estimated $48,000 apparently used for unauthorized purposes without the required consent of AAO/Lagos. This problem was noticed when auditors compared reported revenues minus disbursements previously authorized by the AAO, to the balances being reported by FPIA and noticed substantial differences. In response to RIG/A telegrams and follow-up, it was determined that 337,418 Naira (about $48,000) was used for clearing and transportation costs without the required prior approval of the AAO. The recommendation requires that FPIA account for these unconfirmed and apparently unauthorized costs to AAO/Lagos.

Finally, since project inception, the value of the Nigerian currency has decreased by about 33 percent. Based on recent economic conditions, if the funds are not used, their purchasing power will erode considerably. Therefore, plans should be developed promptly to use the funds. Accordingly, our recommendations focus on the need for internal controls over the private sector revenue generations.

Recommendation No. 1

We recommend that the A.I.D. Affairs Officer, Lagos:

a. approve no further reimbursement to, and incur no further obligations with, Family Planning International Assistance until bank statements or records are provided showing the amount of funds in each account and the nature of disbursements made;

b. require Family Planning International Assistance to provide each month a statement reconciling sales and bank deposits and a detailed listing of receipts and disbursements for each account;

c. require Family Planning International Assistance to establish a separate interest-bearing account for private sector revenues generated under the current project;

d. develop a plan over the life of the project showing how the private sector revenues will be used; and

e. require Family Planning International Assistance to provide documentation to support the estimated $48,000 in clearing and transportation costs or, reimburse the local currency account for this amount.

Management Comments

AAO/Lagos concurred with the finding and recommendations. They stated the recommendations related to local currency monitoring were discussed with FPIA and that FPIA was addressing the issues. The AAO was planning a meeting with all the project contractors in September 1989. Further, the AAO stated that a request for an additional person was approved by AID/Washington. Among other things, the new hire would assist in financial monitoring.

Office of Inspector General Comments

Based on the management comments, we consider Recommendations 1(a) and 1(e) as unresolved because FPIA had not yet produced all requested bank statements and supporting documents at the time of the final report.

Recommendations 1(b), 1(c) and 1(d) are considered resolved and will be closed after the AAO provides RIG/A/D with documentary evidence of implementation.

## 2. Commodity Inventory Control Needed Improvement

To ensure that commodities are not subject to pilferage, deterioration, or misappropriation, adequate internal controls are required. The audit found that (1) A.I.D. financed commodities intended for free distribution were available for sale on the local market, (2) there were no inventory reconciliations, (3) warehouses were inadequately equipped to protect commodities from extreme heat and humid conditions, and (4) expired commodities needed to be destroyed, while others needed testing before distribution. Needed inventory controls had not yet been developed by Family Planning International Assistance and responsibilities were not clearly defined. Also, the commodity management system recommended by REDSO/WCA had not been implemented in its entirety. As a result, project commodities costing $1.4 million were not adequately safeguarded, and the auditors estimated that the Agency could save about $500,000 by developing better controls.

### Discussion

A.I.D. Handbook 15 contains policies and procedures that are designed to ensure that A.I.D.-financed commodities are properly accounted for, expeditiously moved to their destinations, and appropriately used. Chapter 10B states, "effective use of commodities under project agreements means delivery and use in accordance with project implementation plans". A.I.D. Affairs Officers (AAO) or Mission Directors should make sure that A.I.D.-funded commodities and equipment are properly utilized in accordance with A.I.D. regulations and project agreements.

Several conditions were found during the audit which reflected the necessity to improve internal control over commodity inventories. A.I.D. provides different brands of condoms for the two different programs, i.e., public and private distribution. The "Sultan" brand was designated for free public distribution, whereas the "Blue Panther" brand was intended for private sales. During the course of the audit, the auditors observed "Sultan" brand condoms being sold in the market place. This indicated that A.I.D. commodities intended for free public distribution were being illegitimately sold.

Further, commodities designated for destruction were held in the A.I.D. warehouse for over six months, without any action taken. The prolonged warehousing of commodities designated for destruction not only increases warehousing costs, but increases the probability of improper use. The commodities

need to be destroyed as soon as possible to assure that they will not reach the local market where they could be sold.

Other commodities were stored in extreme heat and without adequate ventilation. This was confirmed during a visit by the auditors to the A.I.D. warehouse in Lagos and the Ogun State warehouse in Abeokuta, Nigeria. Another visit to a family planning clinic in Abeokuta showed the same conditions.

None of the storage facilities visited were adequately ventilated and boxes of commodities were placed directly on the floor where they could be damaged from the moisture. Both problems could be solved by placing the boxes on pallets and installing fans. A.I.D. officials acknowledged that the commodities needed to be better protected against the heat and the humidity.

Also, some commodities intended for distribution to the private sector were stored in the A.I.D. warehouse under extreme heat and inadequate ventilation. These conditions may have rendered the commodities ineffective. Therefore, in our opinion it would be necessary prior to distribution to test these commodities to determine if there had been any excessive deterioration under these extreme conditions.

The site visit to Ogun State warehouse in Abeokuta disclosed that family planning commodities had been in short supply for about six months. The problem was confirmed by the Family Planning Coordinator and the Director General of the Ministry of Health in Ogun State. At a family health clinic in Abeokuta, stocks of condoms, birth control pills and interuterine devices were also almost completely exhausted. In addition, AAO records indicated that there were shortages of commodities in other geographical areas. More and complete reconciliations of all commodity inventories should have disclosed, well in advance, some of these shortages so that action could have been taken to replenish supplies.

There were two causes for the weak internal control system over the commodity inventories. First, there was some confusion during the initial stages of implementation as to which of the PVO contractors had responsibility for inventory distribution and tracking of project-funded contraceptives. In March 1989, the contracts were amended to stipulate that FPIA had specific responsibility to ensure proper inventory control until contraceptives were shipped out of the central warehouse in Lagos.

Second, the Regional Commodity Management Officer from REDSO/WCA had developed a commodity management system, but it was only partially implemented. This commodity management system was developed in response to a theft, which was made known to the Regional Inspector General/Investigations (RIG/I/Dakar). The theft occurred in the central warehouse (SPNL) in June 1988, and involved about $40,000 in missing contraceptives. The commodity system identified specific controls that needed to be implemented to assure that commodity inventories were adequately safeguarded. For example, the system required that one official assume responsibility for all outgoing commodity shipments from the central warehouse. At the time of the audit, no action had been taken to fill the position.

Only about $1.4 million of the $17 million in commodities had arrived in the country. Without an adequate system of internal control the commodities will be subject to mismanagement, leakage, and pilferage. Based on the relationship between commodities purchased and amounts identified as missing, the auditors estimated that the Agency could save about $500,000 in commodities if the recommended internal control system is developed. Therefore, it is important that a complete system of internal control be developed to protect all commodities over the life of the project.

Recommendation No. 2

We recommend that the A.I.D. Affairs Officer require responsible Private and Voluntary Organizations to:

a. implement the commodity management system recommended by the Regional Economic Development Support Office/West and Central Africa;

b. establish a system of periodic inventory reconciliation on a semi-annual basis;

c. supply warehouses with the equipment necessary to protect commodities from heat and humidity;

d. destroy expired commodities in the A.I.D. warehouse and test remaining commodities prior to distribution; and

e. designate or hire an employee to assume full responsibility for incoming and outgoing commodity shipments to and from the central warehouse, including the responsibility for controlling and rejecting all expired commodities.

Management Comments

AAO/Lagos agreed with the finding and recommendations stating that the issues related to commodity management were being addressed by FPIA. A meeting of project contractors was being planned and negotiations were being conducted with a local audit firm to follow-up on commodity end-usage.

Office of Inspector General Comments

The recommendation is considered as resolved and will be closed upon the receipt of evidence by RIG/A/D that the recommendations have been implemented.

### 3. PVO Field Offices Needed Adequate Management Authority And Staff

For field offices to function effectively, the home office must delegate adequate authority to a sufficiently staffed field office. Some PVO field offices in Nigeria were required to get approval from the home offices for relatively minor management decisions. Further, financial personnel had not been assigned to two of the five field offices. PVO officials stated that more authority was not delegated to the field because the in-country staff was relatively new and inexperienced. They further maintained that financial personnel were not hired because the number of in-country financial transactions was limited. The lack of authority resulted in increased project costs because state-side and regional PVO officials were required to travel to Nigeria to resolve problems and make decisions which should be made in the country. An absence of financial personnel in the field offices increases the vulnerability of the project to fraud, waste and abuse.

#### Discussion

The audit disclosed that some project PVO field offices in Nigeria had not been given adequate authority or staff to function effectively. For example, the FPIA country representative was required to send an $1,800 contract to the headquarters office in New York for approval before action could be taken.

In another case, we noted the PVO country representative had neither a petty cash nor a project checking account and was paying project expenses from his personal account. Reimbursement was made by the home office after the expenses had been incurred, but we feel that it is a serious constraint and an unwise financial management procedure to pay project expenses from personal funds.

Another indication that the field offices had not been fully integrated into the line of authority was noted during the quarterly project meetings. Project management committee meetings were established to bring together the PVO country representatives, project administrator, Federal Ministry of Health and A.I.D. to review project progress and discuss future project planning. In all cases PVO home or regional office personnel were well represented at these meetings with in some cases two and three people.

Further, the auditors observed that some of the PVO offices were not maintaining the necessary records. Offices did not

retain vouchers and other important financial records nor were they maintaining inventories of equipment ordered and received. These shortcomings were attributed to the absence of financial personnel or accountants on the PVO's field office staffs.

In the auditors opinion the PVO country representatives need to have the necessary authority and staff to effectively manage and monitor project activities. While the PVOs did not disagree with the concept they stated that the PVO country representatives were new and that more authority would be passed on to them after acquiring more experience. In reference to the need for financial personnel on the staff the PVOs stated that financial personnel were not hired because the number of in-country financial transactions were limited.

The auditors agree that authority should not be delegated to inexperienced personnel not capable of carrying out their responsibilities. But we would also like to point out that this is an exceptionally large, complex and ambitious project that requires efficient management.

As a result, PVOs are responsible for employing experienced personnel capable of assuming responsibilities to get the job done. To employ less experienced individuals not only places an unnecessary burden on the project coordinator and A.I.D. staff, but will also increase project travel costs to shuttle managers from the U.S. to make decisions that should be made by site personnel. With this in mind, recommendations have been made to ensure the PVOs are adequately delegating authority and providing the necessary staff to effectively manage the project.

Recommendation No. 3

We recommend that the A.I.D. Affairs Officer/Lagos:

a. undertake an analysis of the experience of key PVO field personnel and the adequacy of the authority delegated from the PVO home offices to the field staff;

b. report to RIG/A/Dakar any instances where the level of authority is not commensurate with the duties of the assigned personnel; and

c. require the PVO's to correct the instances identified in the report.

Recommendation No. 4

We recommend that the A.I.D. Affairs Officer/Lagos require each of the PVO field offices to assign full or part-time financial personnel, as is warranted.

Management Comments

The issues of delegation of authority and inadequate staffing of financial personnel were covered in the draft report, however, specific recommendations were not made. In their response, AAO/Lagos did not comment on the issue of delegation of authority, but noted that a specific recommendation to resolve the staffing problem had not been included in the draft.

Office of Inspector General Comments

After the draft report was issued, Recommendation 3 was added based on additional review by RIG/A/D. Therefore, a resolution cannot be determined until comments from AAO/Lagos are received and reviewed by our office. Recommendation 4 is considered resolved based on the draft report comments already submitted by AAO/Lagos. Both recommendations will be closed upon the receipt of evidence by RIG/A/D that they have been implemented.

## B. Compliance and Internal Controls

### Compliance

The AAO was not in compliance with the requirement that local currency bank accounts must be carefully monitored to ensure adequate management controls over the funds. As discussed in Finding 1 of the report, A.I.D. did not know how much money was in the accounts nor how many accounts had been opened. No further instances of non compliance had been identified.

### Internal Controls

The audit discussed that internal control needed strengthening. There was a need to ensure that project funds and commodities had been accounted for and were used for their intended purposes. This is discussed in Findings 1 and 2 of the report.

## C. Other Pertinent Matters

### Project Lacked Timely and Detailed Financial Records

The audit disclosed that the AAO/Lagos was not receiving from the prime contractors or A.I.D./Washington accurate, timely, and detailed information on project expenses. For example, the standard quarterly format by line item did not permit the review of expenditure data submitted by the PVO's as desired by the AAO/Lagos. Quarterly PVO expenditure data was submitted by the field office to the headquarters office where the charges were consolidated and sent to AID/Washington for reimbursement by letter of credit. About six or seven months later ,the expenditure data was sent to the AAO's office in Lagos. Unfortunately, not only was the data late, but it was also not in sufficient detail to determine if the charges were authorized and benefitted the project. Of primary concern to the AAO was that under this system it was not possible to determine if the PVO staff charges were authorized and what services were provided. The AAO/Lagos agreed with the auditors that better accountability was warranted and developed a better financial reporting format for the PVOs. Since the problem was corrected during the audit, no recommendation is included in this report.

Further, the AAO/Lagos did not have up to date data on the procurement of and expenditure for commodities. The AAO knew what commodities had arrived in the country, but did not know the value of the commodities nor how much money was still available. At the time of the audit, the auditors were not able to determine why AID/Washington was not providing the project with necessary data. However, we did note in a response to our draft report from the Bureau of Science and Technology/Population (S&T/Pop) that the AAO was requesting the information from the wrong AID/W office. According to the memorandum, S&T/Pop manages the procurement of family planning commodities, but the Office of Financial Management/Program Accounting and Finance Division (FM/PAFD) is the official source for expenditure data and unexpended balances. The AAO should be directing requests for commodity expenditure data to FM/PAFD.

### Project Transactions Were Recorded Under Different Project Numbers

Project transactions were still being recorded under an old regional project number even though a new project number had

been assigned. Initially, the project was regional and was assigned project number 698-0420.20. Later, in May 1988, the project was bilateralized as country specific to Nigeria requiring a change to project number 620-0001.

AAO officials explained that the Bureau for Africa/Development Planning in AID/Washington had not provided the Regional Economic Development Services Office/West Africa Accounting Center (REDSO/WAAC) Controller in Abidjan the necessary authorization to record all activity under the new number. This was confirmed by the Controller. The Bureau should have deallowed funding from the old project number and reallowed funding to the new project number when the project was bilateralized.

A copy of the draft report, including a recommendation that appropriate action be taken to transfer funds from the old project, was sent to the Bureau of Africa/Development Planning in AID/W. As of August 23, 1989, a REDSO/WAAC cable stated that AID/W had not provided the necessary authority to transfer unliquidated funds from the old project number to project number 620-0001. Even though the final report does not contain this recommendation, the auditors still consider the problem warrants attention and suggest it be resolved by the Africa Bureau.

Host Government Contributions

There was no system established to account for the host governments expected $33 million contribution to the project. Even though about 85 percent of this amount represented in-kind contributions, it would still be necessary to maintain accountability in order to monitor the expected contributions. AAO/Lagos agreed and indicated they would establish a system of accountability.

AUDIT OF
THE FAMILY HEALTH SERVICES PROJECT IN NIGERIA

# PART III - EXHIBITS AND APPENDICES

Exhibit 1

## Prime Contractors

Project 620-0001
(As of December 1988)

| Contractor | Contract No. | Activity | Amount (000) |
|---|---|---|---|
| The Pathfinder Fund | 620-0001-C-00-8018 | Public Sector | $11,000 |
| Family Planning International Assistance | "" "" 8015 | Private Sector | 10,700 |
| Johns Hopkins University, Population Communication Services | "" "" 8013 | Information, Education and Communication | 15,000 |
| Johns Hopkins University, Institute for International Programs | "" "" 9001 | Policy | 2,500 |
| African-American Institute | "" "" 8008 | Admin/Logistic | 2,000 |
| TOTAL | | | $41,200 |

ORIGIN: AID-2 INFO: AMB DCM ECON (5)

VZCZCOSI
RR RUEHC RUEHAB
DE RUEHOS #4155/01 075 **
ZNR UUUUU ZZH
R 160841Z MAR 89
FM AMEMBASSY LAGOS
TO RUEHC / SECSTATE WASHDC 9284
INFO RUEHAB / AMEMBASSY ABIDJAN 8649
BT
UNCLAS SECTION 01 OF 02 LAGOS 04155

FHS

CLASS: UNCLASSIFIED
CHRGE: AID 03/14/89
APPRV: AAO:HDMERRILL
DRFTD: AID:VHMILHOUS
CLEAR: AID:GACASHION
DISTR: AID
ORGIN: OCR

AIDAC DIRECT RELAY

E.O. 12356:N/A
SUBJECT: POPULATION - FHS PROJECT 620-0001, RIG/DAKAR
PRELIMINARY FINDINGS

TO: DANIEL PELLEGROM
- THE PATHFINDER FUND
- NINE GALEN STREET, SUITE 217
- WATERTOWN, MA 02172-4501
- TEL: 617-924-7200

2. PHYLLIS PIOTROW
- POPULATION COMMUNICATION SERVICES
- JOHNS HOPKINS UNIVERSITY
- 527 ST. PAUL PLACE
- BALTIMORE, MARYLAND 21202
- TEL: 301-649-6300

3. DANIEL WEINTRAUB
- FAMILY PLANNING INTERNATIONAL
- ASSISTANCE (FPIA)
- 810 SEVENTH AVENUE
- NEW YORK, N.Y. 10019
- TEL: 212-541-7800

4. STELLA GOINGS
- INSTITUTE OF INTERNATIONAL PROGRAMS
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- BALTIMORE, MD 21207
- TEL: 301-955-3256

5. DENNIS WEEKS
- MOUNTAIN LODGE ROAD
- WASHINGTONVILLE, NY 12992
- 914-496-5289

SUBJECT: POPULATION - FHS PROJECT 620-0001, RIG/DAKAR
PRELIMINARY FINDINGS

AAO/LAGOS WOULD LIKE TO THANK FHS CONTRACTORS AND LOCAL STAFF FOR THEIR COOPERATION DURING THE VISIT OF THE AUDIT TEAM FROM RIG/DAKAR. ALTHOUGH THE PRELIMINARY REPORT IS OVERALL POSITIVE IN REGARD TO THE OPERATION OF THE FIELD OFFICES, THE AUDITORS HAVE IDENTIFIED SEVERAL

PROBLEM AREAS. FOLLOWING IS A SUMMARY OF THEIR INITIAL OBSERVATIONS AND RECOMMENDATIONS:

1. DELEGATION OF AUTHORITY: AAO HAS PREVIOUSLY EXPRESSED CONCERN THAT VIRTUALLY ALL AUTHORITY FOR PROJECT TRANSACTIONS IS WITH THE CONTRACTORS' HOME OFFICES. THE AUDITORS NOTED, FOR EXAMPLE, THAT IN SOME CASES THE COUNTRY REPRESENTATIVE HAS NO ACCESS TO FUNDS FOR TRAVEL OR OTHER LOCAL EXPENSES. IT HAS ALSO BEEN NOTED THAT LOCAL CONTRACTS FOR PROJECT ACTIVITIES ARE ALMOST ALWAYS NEGOTIATED AND FINALIZED BY THE HOME OFFICES. THIS NOT ONLY CAUSES UNNECESSARY DELAYS IN IMPLEMENTATION, BUT ALSO INCREASES ADMINISTRATIVE COSTS. AAO BELIEVES THAT THE COUNTRY REPRESENTATIVES, WHO ARE INVOLVED DAILY WITH WHAT IS GOING ON HERE IN NIGERIA, HAVE THE KNOWLEDGE AND THE EXPERTISE TO NEGOTIATE AND APPROVE (IN CONJUNCTION WITH THE PROJECT ADMINISTRATOR AND USAID) THOSE CONTRACTS WITH A COST NOT MORE THAN U.S. DOLS 10,000. THIS WOULD REDUCE THE AMOUNT OF TIME LOST IN LONG DISTANCE TRANSACTIONS AND WOULD ALSO SUBSTANTIALLY REDUCE OVERHEAD COSTS ASSOCIATED WITH THE USE OF HOME OFFICE STAFF, THUS FREEING MORE FUNDS FOR PROGRAM ACTIVITIES.

2. RECORD KEEPING: THE AUDITORS HAVE OBSERVED THAT THE OFFICES HERE IN LAGOS DO NOT MAINTAIN THE KIND OF RECORDS THAT ARE NECESSARY FOR EFFECTIVE MANAGEMENT AND MONITORING OF THE PROJECT. ALTHOUGH MOST FINANCIAL TRANSACTIONS ARE HANDLED BY THE HOME OFFICES, COPIES OF VOUCHERS AND OTHER DOCUMENTS SHOULD BE PROVIDED TO THE FIELD. IN ADDITION TO FINANCIAL RECORDS, IT IS ALSO IMPORTANT THAT EACH LOCAL OFFICE MAINTAIN AN INVENTORY OF ALL EQUIPMENT ORDERED AND RECEIVED, WHETHER THE PROCUREMENT IS INITIATED BY THE HOME OR THE FIELD OFFICE. IT IS ALSO ADVISABLE FOR EACH COMPONENT TO HAVE A LOCAL FINANCIAL MANAGER OR ACCOUNTANT WHO WILL BE RESPONSIBLE FOR FINANCIAL AND PROPERTY RECORDS.

3. VOUCHER APPROVAL: AUDITORS NOTED THAT THERE ARE A NUMBER OF DIFFERENT PROCEDURES IN PLACE FOR APPROVAL OF SUBCONTRACTOR VOUCHERS AND THAT ORGANIZATIONS ARE NOT

ALWAYS CONSISTENTLY FOLLOWING ONE PROCEDURE. USAID SUGGESTS THAT THE PROJECT DIRECTOR FOR EACH COMPONENT BE RESPONSIBLE FOR REVIEWING AND APPROVING ALL SUBCONTRACTOR VOUCHERS.

4. MARKING OF COMMODITIES: CONTRACTORS ARE REMINDED THAT ALL EQUIPMENT AND SUPPLIES PURCHASED WITH PROJECT FUNDING MUST DISPLAY THE AID HANDCLASP SYMBOL (AID HANDBOOK 15, CHAPTER 9). AUDITORS NOTED THAT FEW ITEMS IN THE PROJECT OFFICE ARE MARKED.

5. REPORTING: (1) BECAUSE MOST FINANCIAL TRANSACTIONS ARE HANDLED IN THE STATES, WITH VOUCHERS SUBMITTED TO AID/W FOR APPROVAL, IT IS VERY DIFFICULT FOR USAID/LAGOS TO MONITOR THE USE OF PROJECT FUNDS. WE DO NOT KNOW, FOR EXAMPLE, WHAT IS BEING CHARGED FOR HOME OFFICE EXPENSES OR EVEN FOR LOCAL PROJECT ACTIVITIES. WE ARE, HOWEVER, REQUIRED TO PERIODICALLY REVIEW FINANCIAL STATUS REPORTS AND TO SUBMIT SIGNED STATEMENTS THAT AUTHORIZE CONTRACTOR PAYMENTS. THE QUARTERLY FINANCIAL REPORTS MUST, THEREFORE, BE MORE COMPREHENSIVE THAN THOSE PRESENTLY SUBMITTED. THE PROJECT ADMINISTRATOR AND USAID WILL WORK WITH THE AUDIT TEAM TO DESIGN A MORE COMPLETE FORMAT FOR FINANCIAL REPORTING, WHICH WILL BE FORWARDED TO ALL CONTRACTORS AS SOON AS POSSIBLE. (2) AS DISCUSSED IN THE LAST COMMITTEE MEETING, CONTRACTOR QUARTERLY REPORTS PROVIDE IMPORTANT INPUT FOR THE BI-ANNUAL PROJECT IMPLEMENTATION REPORT REQUIRED BY AID/WASHINGTON. FOR THIS REASON, WE ASK THAT, IN ADDITION TO A SUMMARY OF ACTIVITIES TO DATE AND THOSE PLANNED FOR THE NEXT PERIOD, YOU INCLUDE AN ITEMIZATION OF ACHIEVEMENTS IN TERMS OF THE QUANTIFIABLE INDICATORS SPECIFIED IN YOUR CONTRACT. (3) USAID PREFERS THAT ANNUAL TRAINING REPORTS AND EQUIPMENT DISTRIBUTION REPORTS BE SUBMITTED ON THE SAME SCHEDULE BY ALL CONTRACTORS; THEREFORE, THE PROJECT ADMINISTRATOR WILL WORK OUT A SCHEDULE FOR SUBMISSION OF THESE REPORTS.

AGAIN, USAID APPRECIATES THE ASSISTANCE OF FHS STAFF IN THIS REVIEW, AND WE LOOK FORWARD TO WORKING WITH ALL OF YOU TO IMPLEMENT THE CHANGES THAT WILL ENABLE OUR PROGRAM HERE TO OPERATE MORE EFFICIENTLY.

HANK MERRILL/USAID/LAGOS

LYMAN
BT
#4155

NNNN

RR RUEHC RUEHAB

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ACTION: RIG-2 INFO: AMB

VZCZCDK0594
PP RUEHEK
DE RUEHOS #3232 2361310
ZNR UUUUU ZZH
P 241300Z AUG 89 ZDK CITING RUFHDK0066
FM AMEMBASSY LAGOS
TO AMEMBASSY DAKAR PRIORITY 1570
BT
UNCLAS LAGOS 13232

LOC: 073 333
25 AUG 89 1240
CN: 43206
CHRG: RIG
DIST: RIG

AIDAC

FOR RIG/A/DAKAR PAUL ARMSTRONG

E.O.12356: N/A
SUBJECT: AUDIT OF NIGERIA FAMILY HEALTH SERVICE PROJECT 620-0621

REF:(A) DAKAR 09487 (B) LAGOS 04155

1. USAID VERY APPRECIATIVE OF AUDIT TEAMS ASSISTANCE IN INSURING A GOOD START FOR THE FAMILY HEALTH SERVICES PROJECT. WE HAVE INCLUDED A REQUEST FOR AN ADDITIONAL USDH PERSON IN OUR RECENT ABS AND HAVE AID/W APPROVAL FOR SPE POSITION. THIS SHOULD EASE SOME OF THE MANAGEMENT BURDEN AND ALLOW US TO ADDRESS OUR CONCERNS WITH REGARD TO FINANCIAL MONITORING. WE NOTE IN PARAG 3 A RECOMMENDATION FROM THE AUDIT TEAM THAT GHCT IT IS ADVISABLE FOR EACH COMPONENT TO HAVE A LOCAL FINANCIAL MANAGER OR ACCOUNTANT WHO WILL BE RESPONSIBLE FOR FINANCIAL AND PROPERTY RECORDS IMD GHCTP. WE DID NOT SEE THAT RECOMMENDATION IN THE DRAFT AUDIT REPORT. OTHER COMMENTS ARE AS FOLLOWS.

2. WISH HAVE DISCUSSED DRAFT AUDIT RECOMMENDATIONS WITH REGARD TO COMMODITY MANAGEMENT AND LOCAL CURRENCY MONITORING AND USAGE WITH EPIA AND THEY ARE ADDRESSING ISSUES. WE WILL DISCUSS FURTHER AT SEPTEMBER MEETING OF PROJECT CONTRACTORS. WITH REGARD TO COMMODITIES WE ARE NEGOTIATING WITH A LOCAL AUDIT COMPANY TO FOLLOW UP ON COMMODITY END USAGE FOR THOSE SUPPLIES GIVEN TO NON-GOVERNMENTAL AGENCIES AND INTERNATIONAL ORGANIZATIONS. ALL OTHER RECOMMENDATIONS IN NUMBER 2 HAVE BEEN ADDRESSED.

3. WE HAVE REQUESTED COMPLETE COMMODITY INFORMATION PER RECOMMENDATION NUMBER 4 FROM SST/POP; AND DEALLOT/REALLOT ACTION FROM AFR/TP PER RECOMMENDATION

4. MISSION WOULD AGAIN LIKE TO THANK AUDITORS HOLT, TIOP AND HOOVER FOR THE VERY HELPFUL AND COLLABORATIVE MANNER THEY USED DURING THE AUDIT PERIOD. MISSION BELIEVES AUDIT FUNCTION IS A VERY USEFUL MANAGEMENT TOOL, AND THEIR PERFORMACE ONLY REINFORCED OUR BELIEF. BLAKEMORE
BT

## Report Recommendations

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### Recommendation No. 1 — 7

We recommend that the A.I.D. Affairs Officer, Lagos:

a. approve no further reimbursement to, and incur no further obligations with, Family Planning International Assistance until bank statements or records are provided showing the amount of funds in each account and the nature of disbursements made;

b. require Family Planning International Assistance to provide each month a statement reconciling sales and bank deposits and a detailed listing of receipts and disbursements for each account;

c. require Family Planning International Assistance to establish a separate interest-bearing account for private sector revenues generated under the current project;

d. develop a plan over the life of the project showing how the private sector revenues will be used; and

e. require Family Planning International Assistance to provide documentation to support the estimated $48,000 in clearing and transportation costs or, reimburse the local currency account for this amount.

### Recommendation No. 2 — 10

We recommend that the A.I.D. Affairs Officer require responsible Private and Voluntary Organizations to:

a. implement the commodity management system recommended by the Regional Economic Development Support Office/West and Central Africa;

b. establish a system of periodic inventory reconciliation on a semi-annual basis;

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c. supply warehouses with the equipment necessary to protect commodities from heat and humidity;

d. destroy expired commodities in the A.I.D. warehouse and test remaining commodities prior to distribution; and

e. designate or hire an employee to assume full responsibility for incoming and outgoing commodity shipments to and from the central warehouse, including the responsibility for controlling and rejecting all expired commodities.

Recommendation No. 3 13

We recommend that the A.I.D. Affairs Officer, Lagos:

a. undertake an analysis of the experience of key PVO field personnel and the adequacy of the authority delegated from the PVO home offices to the field staff;

b. report to RIG/A/Dakar any instances where the level of authority is not commensurate with the duties of the assigned personnel; and

c. require the PVO's to correct the instances identified in the report.

Recommendation No. 4 14

We recommend that the A.I.D. Affairs Officer/Lagos require each of the PVO field offices to assign full or part-time financial personnel, as is warranted.

Appendix 3

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