

PD-ABB-119

AUDIT OF STRATEGIES  
FOR  
IMPROVING SERVICE DELIVERY

PROJECT NO. 936-3030

AUDIT REPORT NO. 9-000-90-004  
JUNE 6, 1990

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

DEPUTY INSPECTOR GENERAL

June 6, 1990

MEMORANDUM FOR AA/S&T, Richard E. Bissell  
AA/MS, Michael Doyle

FROM: D/IG,  James B. Durnil

SUBJECT: Audit of Strategies for Improving Service Delivery

The Inspector General's Office of Programs and Systems Audits has completed the subject review. A draft of the report was provided to your Bureaus for review and comments. A copy of your responses is attached to the report as Appendix 1. Five copies of the report are attached for your action.

Recommendations No. 1, No. 2 and No. 3 are considered resolved and will be closed upon receipt of documentation supporting proposed actions in process have been completed.

Please provide to the Office of Programs and Systems Audits within 30 days the actions planned or taken to close the recommendations.

I appreciate the cooperation and courtesy extended to my staff by members of the Office of Population and the Office of Procurement throughout the audit period.

## EXECUTIVE SUMMARY

The objective of the Operations Research project was to help initiate family planning services where these services did not exist and to improve services where they did exist. The goals of the program were to: 1) improve the quality, accessibility and cost-effectiveness of Family Planning/Maternal and Child Health service delivery systems; and 2) strengthen less developed country institutional capabilities to use operations research as a management tool to diagnose and solve service delivery problems.

In 1984, A.I.D. approved a new 10-year family planning Operations Research project which was called Strategies for Improving Service Delivery. This new project was created under the authority contained in Section 104 of the Foreign Assistance Act of 1961, as amended, and approved by the Administrator on June 6, 1984. As of April 1988, the project authorized funding was \$39.7 million of which \$29.5 million had been obligated. The life of the project was 10 years (1984-1993).

The Office of the Inspector General, Programs and Systems Audits made an audit of the centrally funded Strategies for Improving Service Delivery project. The general objectives of the audit were to determine if 1) contractors/grantees and A.I.D. were using their resources efficiently and economically; 2) objectives of the project were being measured and met; 3) contractors/grantees and A.I.D. were complying with laws and regulations; and 4) costs were being subjected to audit. The audit included project activities from October 1, 1984 through June 30, 1989.

The audit found that, although project objectives were being measured and met, a monitoring mechanism was needed to ensure continuity and reporting of project activities after A.I.D. funding ceased; project resources were not being used as efficiently as possible because subproject costs were not subjected to audit; and compliance with A.I.D. Handbook 3 was not fully met in monitoring and evaluating the project.

The audit disclosed a need for (1) improving the process and documentation for monitoring and evaluating the project; (2) more subproject audit coverage and for better documentation of expenditures; and (3) further addressing institutionalization of A.I.D.'s Operations Research concepts prior to and during project implementation and follow-up on the long-term impact of service delivery systems developed.

The audit also showed that the project had a substantial impact on the population field. It has provided a legitimate and respected mechanism to test alternative delivery systems and components. It has also provided empirical evidence for answering questions with facts. The Operations Research project has proven to be a useful vehicle in many countries for changing policy as well as for improving the delivery of family planning and maternal and child health services.

This report recommends allocation of travel funds for project managers to visit project sites to oversee project implementation; requiring operations research contractor and grantees to provide all trip reports (or a comparable timely reporting system) on visits to subprojects; emphasizing to principal investigators the detrimental effect of absences from post and scrutinizing and questioning requests for such international travel; implementing an independent evaluation of the operations research project prior to the development of the project paper for the next follow-on operations research project; and establishing guidelines for documenting management reviews held with project contractors or grantees.

This report also recommends amending cooperative agreements for the implementation of operations research activities by requiring subproject audits and attaching to the agreements the mandatory Standard Provisions of A.I.D. Handbook 13, Appendix 4C; developing a reasonable plan of action to provide adequate audit coverage to subprojects; resolving questioned costs amounting to \$91,256 with contractor/grantees for items listed on Exhibits 2, 3, and 4; and requiring documentation from Tulane University on the actions it plans to take to recover \$16,074 presumably misappropriated by a subproject employee.

Finally, the report recommends strengthening attention to longer term organizational commitment and capability to undertake future operations research activities; requiring that future final reports on project completion contain a detailed description of institution strengthening activities; and establishing a continuing monitoring mechanism to ensure continuity and reporting of operations research project activities after A.I.D. funding ends.

*Office of the Inspector General*

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PART I - INTRODUCTION

Background

A.I.D.'s Operation Research (OR) program began in 1973 as part of an effort to move away from a reliance on clinic based family planning service delivery. Much of the early OR effort was to initiate community based distribution (CBD) programs and to measure their impact on contraceptive prevalence rates. Operations Research is any systematic investigation concerned with the acceptability, effectiveness and/or cost of a family planning delivery system. OR is a practical approach to addressing service delivery issues for which conventional management and evaluation techniques are inadequate.

In 1984, A.I.D. approved a new 10-year family planning OR program which was called Strategies for Improving Service Delivery. This new program was created under the authority contained in Section 104 of the Foreign Assistance Act of 1961, as amended, and approved by the Administrator on June 6, 1984.

Strategies for Improving Services Delivery is administered centrally by the Bureau for Science and Technology, Office of Population, Division of Research (S&T/POP/R). Separate project managers were responsible for overseeing project activities by regional areas, thus at times up to four project managers could be involved in administering the project. As of April 1988, the project authorized funding was \$39.7 million of which \$29.5 million had been obligated. The life of the project was 10 years (1984-1993).

The objective of the OR program was to help initiate family planning services where these services did not exist and to improve services where they did exist. The goals of the program were to: 1) improve the quality, accessibility and cost-effectiveness of Family Planning/Maternal and Child Health service delivery systems; and 2) strengthen less developed country institutional capabilities to use OR as a management tool to diagnose and solve service delivery problems.

Since its inception, A.I.D.'s OR program has been implemented through contracts and cooperative agreements with such U. S.

based agencies (prime contractors) as The Population Council for Latin America and the Caribbean; Columbia University for Africa (also subprojects in Haiti); the University Research Corporation for Asia; and Tulane University for Zaire; working primarily on a regional basis.

The prime contractors have assisted research and family planning service organizations by providing technical assistance in carrying out OR studies. Most of this technical assistance has been provided by technical advisors working either in a single country or in several countries within the same region.

Since 1984, a total of 109 subprojects have been implemented by the four prime contractors through subcontracts with local private sector and governmental institutions. The prime contractors established regional offices in areas of responsibility that were staffed with U.S. and foreign national social scientists. The regional offices were under the direction of a project director or a resident advisor called the principal investigator (PI). The PI was the leader of any OR investigation taking place under his/her area of responsibility and was responsible for providing the overall project management, supervision, and technical assistance in support of project efforts and also for the monitoring of technical assistance to the subprojects.

#### Audit Objectives and Scope

The Office of the Inspector General, Programs and Systems Audits made an audit of the centrally funded Strategies for Improving Service Delivery project. The general objectives of the audit were to determine if 1) contractors/grantees and A.I.D. were using their resources efficiently and economically; 2) objectives of the project were being measured and met; 3) contractors/grantees and A.I.D. were complying with laws and regulations; and 4) costs were being subjected to audit. The audit included project activities from October 1, 1984 through June 30, 1989. No prior audits had been made of this project.

To accomplish the audit objectives, the auditors reviewed project files and records at A.I.D./Washington, USAID Missions, Contractors/grantees, and host countries' public and private institutions. Meetings and interviews were held with officials of the Bureau for Science and Technology, A.I.D. Contracting Office, A.I.D. contractors/grantees, and subcontractors/subgrantees in the United States, and host countries. The auditors visited Missions in Honduras, Mexico, Ivory Coast and Zaire.

Initially, four prime contractors were selected for audit because of geographical locations and because they shared the bulk of-the-funds awarded by A.I.D. a total of \$34.8 million. The auditors did not audit the University Research Corporation because of time limitations. Also, the audit of Columbia University was limited to two subprojects in Abidjan, Ivory Coast because the Defense Contract Audit Agency had audit responsibility for U.S. government contracts or cooperative agreements with Columbia University.

The auditors selected 12 of 109 subprojects for audit in Honduras, Mexico, Zaire and Ivory Coast because of 1) the mixture of OR initiatives involved; 2) the number of subprojects found in one specific location; and 3) the concentration of OR interventions in one country.

The audit covered about \$27.3 million of obligations from S&T/POP as of September 30, 1989. The cumulative expenditures for three prime contractors audited was about \$22.7 million as follows: 1) Population Council \$6.6 million as of December 31, 1988; 2) Columbia University \$13.6 million as of June 30, 1989; 3) Tulane University \$2.5 million as of May 31, 1989. The auditors tested about \$10.5 million in subcontracts costs, direct and indirect costs and other costs. The review of internal controls and compliance was limited to the findings in this report. The audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

Although project objectives were being measured and met, a monitoring mechanism was needed to ensure continuity and reporting of project activities after A.I.D. funding ceased; project resources were not being used as efficiently as possible because subproject costs were not subjected to audit; and compliance with A.I.D. Handbook 3 was not fully met in monitoring and evaluating the project.

The audit found a need for (1) improving the process and documentation for monitoring and evaluating the project; (2) more subproject audit coverage and for better documentation of expenditures; and (3) further addressing institutionalization of A.I.D.'s Operations Research (OR) concepts prior to and during project implementation and follow-up on the long-term impact of service delivery systems developed. The recommendations made to correct these areas are found in the corresponding section of the report and are summarized in Appendix 2.

The audit also showed that the project had a substantial impact on the population field. It provided a legitimate and respected mechanism to test alternative delivery systems and components. It also provided empirical evidence for answering questions with facts. The OR project has proven to be a useful vehicle in many countries for changing policy as well as for improving the delivery of family planning and maternal and child health services. Some examples are:

- According to Tulane's principal investigator, the OR initiatives in Zaire made it possible for that country to have all three of the main service delivery modes in operation: (1) clinic-based services, (2) social marketing, and (3) community-based distribution.
- Columbia University OR activities in Abidjan, Cote d'Ivoire found that 29,357 high-risk pregnancies could be prevented annually.
- The Population Council reported that post-partum activities in the Promotion of Breastfeeding and the Social Security System subprojects in Honduras reinforced breastfeeding counseling as a central component of post-partum services,

and introduced a range of family planning services in a health system that previously had only provided limited surgical contraceptive services.

## A. Findings and Recommendations

### 1. The Process and Documentation of Project Monitoring and Evaluation Needed Improvement

A.I.D. Handbook 3 requires that projects be adequately monitored and evaluated. However, Bureau for Science and Technology (S&T/POP/R) project managers were not performing some important monitoring functions such as making site visits and ensuring that the results of management reviews were being documented. This occurred because, according to S&T/POP officials, limited funds were available for project managers to make site visits. Also, project managers 1) did not uniformly enforce the requirement that contractors and grantees provide trip reports; 2) may not have adequately scrutinized requests from Principal Investigators for international travel; 3) and did not document management reviews with contractors and grantees. Evaluation requirements were included in agreements with contractors but not implemented. Project managers substituted an overview evaluation instead of the evaluations required by the contracts or agreements. As a result, compliance with A.I.D. Handbook 3 was not fully met for monitoring and evaluating the project.

#### Recommendation No. 1

We recommend that the Bureau for Science and Technology, Directorate of Population:

- (a) allocate travel funds for its project managers to visit project sites for the purpose of overseeing project implementation;
- (b) require operations research contractors and grantees to provide all trip reports (or a comparable timely reporting system) on visits to subprojects to their respective Cognizant Technical Offices, including a discussion of problems encountered and actions taken to resolve them;
- (c) systematically emphasize with principal investigators the detrimental effect of absences from post and actively scrutinize and question requests for such international travel;
- (d) implement an independent evaluation of the operations research project prior to the development of the project paper for the next follow-on operations research project; and
- (e) establish guidelines on documenting management reviews held with project contractors or grantees.

## Discussion

Bureau for Science and Technology project managers were not performing some important monitoring functions such as making site visits and ensuring that the results of management reviews were documented. Evaluation requirements were included in the agreements with contractor/grantees but were not implemented. Instead an alternative "global" evaluation was conducted.

## Monitoring

A.I.D. Handbook 3 sets forth responsibilities for managing and monitoring projects. Chapter 11 specifically requires that progress be compared to plans thereby alerting managers of potential problems, and requires timely gathering of information on inputs, problems, and actions critical to project success through site visits, reports, etc. Under some project agreements, the approval to use A.I.D. funds for international travel was made with the understanding that trip reports were required of each traveler.

S&T/POP/R project managers lacked the means to properly supervise project activities. According to S&T/POP officials, project managers were not making site visits because funds were not available for travel. Consequently, A.I.D. has had to rely largely on the site visits of contractor staff. This situation was also brought out during the first phase evaluation of the project. This problem hampered project managers' ability to perform a close advisory role in project management. Site visits when made on a periodic and regular basis help in ascertaining project progress and status and help isolate problem areas and identify follow-up actions to be taken.

Because travel funds were not made available for A.I.D. staff, the management of the OR program designed as an alternative, regional OR projects with large numbers of on-the-ground technical staff to assist subproject implementation. However, some degree of A.I.D./Washington involvement in subprojects needs to be maintained.

In some instances when the contractors/grantees made site visits, project managers did not enforce the requirement that site visit reports be provided. In the Population Council contract, interim technical reports on each subproject are required as an alternative to specific trip reports. In some instances, contractor/grantees reports should have been provided to S&T/POP/R project managers but were not provided as required by the agreements.

The audit found that monitoring the operation research project was also hampered because principal investigators (PI) assigned to overseas locations were spending too much time away from their posts. The majority of trips taken by the PIs were for conferences, meetings, and workshops. These trips probably enhanced their understanding of OR activities implemented by other organizations; however, the purpose of assigning PIs to overseas locations was to provide their leadership and expertise to OR activities on a continuing basis. As brought out in the global evaluation of the project, A resident advisor has a better opportunity to help local staff make do with what they have (i.e., use service statistics) than someone who comes for a short visit. Allowing PIs to perform numerous trips away from their assigned overseas locations could suggest that these positions may not be required.

Analysis of travel requests from two PIs in Mexico and Peru to the S&T/POP/R project manager revealed a total of 28 trips to the USA since 1984. According to the Population Council's project proposal, travel requirements between the regional offices and New York/Washington had been revised to provide for one trip, every other year for each social scientist. The PI in Zaire made 13 trips (totaling approximately 245 days) from 1986 through April 1989 to the USA, Central America and the Caribbean, Nigeria and Kenya. The project proposal submitted by Tulane University stated that the PI would make two trips to Washington, D.C. each year. Conversely, the Columbia University project director in Africa made just three trips to the USA during a span of five years. S&T/POP/R should monitor closely the necessity for PIs to travel outside their assigned regions and consider the impact on project operations before authorizing trips for PIs.

### Evaluation

The project agreements with the Population Council (Council), Columbia University (Columbia) and Tulane University (Tulane) were specific as to the type and frequency of management reviews and evaluations of the Operations Research (OR) project. For instance, the Columbia agreement specified that:

- semi-annual status reviews and annual evaluation visits to all projects would be conducted
- there will be an annual management review of this Agreement organized by the A.I.D. CTO beginning in October 1985
- an evaluation shall be undertaken by the Recipient and A.I.D. in mid-1987

- an external evaluation during Year IV which will be funded separately from this Agreement
- a final management review by the A.I.D. CTO will be scheduled for September 1989

While a number of the activities listed above such as management reviews and a mid-1987 evaluation for Columbia University did occur, as of September 30, 1989, A.I.D. had not generally made agreement-specific overall project evaluations of the OR agreements as called for in the three project agreements. An overview evaluation called global project evaluation was performed and is discussed below. However, with respect to the URC Asia OR contract, S&T/POP funded a separate external evaluation. This was carried out because specific issues arose involving that contract which an evaluation could resolve. As of September 30, 1989, there was also no evidence that the other Mid-Term and Final Evaluations had been made as provided for by the project agreements and required by A.I.D. policy.

Regarding the annual management review, the audit found little written evidence of any reviews made. The project manager stated that prime contractors got together with A.I.D. officials in Washington, D.C. to discuss their respective projects but that there were no minutes or other records of such meetings. S&T/POP should establish guidelines for project officers to document such meetings and maintain such evidence as part of the official files.

Global Project Evaluation - The Bureau for Science and Technology, Directorate of Population (S&T/POP) had contracted the first phase evaluation of the overall project to examine, describe, and assess the first three years of the project. The evaluation was made between January 1 - February 29, 1988 and a report on the evaluation was published on May 4, 1988. The report stated, however, that since this was only the first phase evaluation and it had to be completed quickly, the information was collected through interviews, and by reviewing pertinent documents rather than by visiting field sites.

The evaluation report further stated several limitations in this phase one evaluation. "It was conducted over a short time period and there was not time to contact everyone who would have had useful things to say about the program and how it might be improved. Nor was it possible to read all the potentially relevant documents. . . ."

Furthermore, the report continued, "evaluating the performance of OR contractors was not part of this first phase evaluation."

As evidenced by this evaluation report, the first "global" evaluation did not include several project evaluation elements such as visits to countries where OR activities were taking place, evaluation of contractors' performance, and the review of all relevant project documents.

In conclusion, in the ensuing years of the current OR project, S&T/POP needs to pay sufficient attention to project evaluations and emphasize activities such as those projected under the Maximizing Results of Operations Research (MORE) initiative (discussed in Finding No. 3) to assess progress, benefit from lessons learned and plan for the future.

#### Management Comments

The Bureau for Science and Technology agreed with the audit recommendation and stated that, (a) it is because of limited travel funds for AID/W staff that operations research agreements include a large number of resident staff to provide comprehensive technical assistance, (b) either trip reports should be prepared regionally and provided to the Cognizant Technical Office, or periodic subproject interim technical reports should be prepared and provided; (c) the average of approximately three trips per year by principal investigators is actually quite reasonable; (d) the evaluation should occur in 1993; and (e) a subcommittee of our Evaluation Task Force is currently undertaking the development of such guidelines.

#### Office of Inspector General Comments

The cited actions are responsive to the audit recommendation which is considered resolved and may be closed upon completion of the cited actions and receipt by this office of documentation showing the actions have been satisfactorily completed.

## 2. Subprojects Needed Systematic Audit Coverage and Adequate Documentation of Expenditures

Mandatory Standard Provisions for U.S. non-governmental grantees require audits not less frequently than every two years and Office of Management and Budget (OMB) Circular No. A-110 requires adequate financial management systems for recipients and subrecipients. Grant sponsored subprojects were, however, not being systematically audited as they should have been and financial systems were inadequate. This was partly attributable to lack of funds budgeted in the agreements for subproject audits and partly to one grantee's dependence on the expense verification process to identify weaknesses. The expense verification processes, however, were also deficient because documentation supporting subproject expenses was inadequate. As a result, the grantees could not ensure that grant funds provided by A.I.D. were used solely for authorized purposes and 7 of 12 subprojects included in the Inspector General's (IG) audit showed \$91,256 in unallowable and unaccounted for expenditures.

### Recommendation No. 2

We recommend that the Bureau For Management Services, Office of Procurement and the Bureau for Science and Technology, Directorate of Population, as applicable:

- (a) amend cooperative agreements DPE-3030-A-00-4049-00, DPE-3030-A-00-4051-00, and contract DPE-3030-C-00-4074-00 for the implementation of operations research activities by requiring subproject audits and attaching to the agreements the Mandatory Standard Provisions of A.I.D. Handbook 13, Appendix 4C;
- (b) in collaboration with Operational Research contractors and grantees, develop a reasonable plan of action to provide adequate audit coverage to grant funded subprojects;
- (c) resolve questioned costs relating to cooperative agreements DPE-3030-A-00-4049, DPE-3030-A-00-4051, and contract DPE-3030-C-00-4074 amounting to \$91,256 with contractor/grantees for items listed on Exhibits 2, 3 and 4; and
- (d) require Tulane University to provide documentation as to what actions it plans to take to recover \$16,074 presumably misappropriated by a subproject employee of the Zaire Department of Public Health.

## Discussion

The examinations of A.I.D. grant sponsored projects are intended to ascertain the effectiveness of financial systems and procedures established to meet the terms and conditions of the grant. A.I.D. Handbook 13, Appendix 4C, 2(8) specifies that examinations in the form of audits or internal audits will be conducted with reasonable frequency, on a continuing basis or at scheduled intervals, usually annually, but not less frequently than every two years. Attachment F - OMB Circular No. A-110 provides additional standards for financial management systems and requires the primary recipients to adopt for subrecipients the standards adopted therein.

## Expense Verification Processes

The lack of audit coverage and the expense verification processes used by the three contractors/grantees audited, Tulane University (Tulane), Columbia University (Columbia), and the Population Council (Council) offered limited assurance that grant funds were used only for intended purposes and made the subprojects vulnerable to abuse and financial mismanagement. This was evidenced by the weaknesses the auditors found in seven subprojects implemented by the three contractors or grantees in Mexico, Honduras, Zaire and the Ivory Coast.

## Tulane University (DPE-3030-A-00-4051-00)

Tulane required subcontractors to submit original invoices to its business office for review and reimbursement after Tulane's principal investigator (PI) in Zaire had reviewed them. However, the audit of two grant funded subprojects showed that the system was flawed because the accounting systems maintained and the supporting documents submitted by two subcontractors were incomplete and unreliable.

This occurred because accounting personnel were not properly supervised. As a result, \$31,127 was not properly accounted for by the subcontractors.

In June 1985, Tulane and the Baptist Community of West Zaire (CBZO) signed a subcontract for 54 months beginning January 1, 1985 and ending June 30, 1989 at a cost of \$302,080. This subcontract was to be carried out in collaboration with two CBZO hospitals in Nsona Mpangu and Nsona Bata, Zaire.

In July 1985, Tulane and the Zaire Department of Public Health (PSND) entered into a subcontract for the purpose of increasing understanding of the socio-demographic and behavioral characteristics of actual and potential users of family

planning services and to test new approaches to service delivery. The amended subcontract was for about 55 months beginning June 1985 and ending December 1989 at a cost of \$428,640.

A.I.D. Handbook 13, Appendix 4C Section 2(a) requires that, "The grantee shall maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting procedures to sufficiently substantiate charges to the grant."

The audit found that the accounting system used by the two subcontractors did not provide complete and reliable information. At both locations, the auditors found ledger entries were not legible because they were made in pencil; transactions were occasionally charged to improper accounts; documentation such as third party invoices was not always available to support expenditures; and amounts recorded in the books did not match financial reports submitted to Tulane. During visits made to the subcontractors' administrative offices, the auditors determined that the persons responsible for maintaining the accounting books received no supervision from either the subcontractors or Tulane.

Although Tulane reviewed the invoices submitted by its (PI) in Zaire, the subcontractors' accounting systems were never inspected until the PI requested an audit of the PSND subcontractor in 1989. The audits by Coopers & Lybrand and the A.I.D. Inspector General's (IG) showed that prior to the years 1987 and 1988, CBZO and PSND, had no formal accounting systems; daily accounting transactions were haphazardly made on sheets of papers or not recorded at all. The audit revealed that PSND and two of the locations where the CBZO grant funded subproject was being implemented could not account for all funds received from Tulane (see Exhibit 2). The PI explained that some expenses had not yet been submitted to Tulane and perhaps that could explain some of the unaccounted for funds.

In the audit of the PSND subproject, Coopers and Lybrand auditors also found discrepancies in documents which they believed might have been falsified. In addition, two checks totaling 22,918,300 (\$16,074)<sup>1/</sup> were cashed by the former PSND accountant, however, because of the lack of an adequate accounting system it was not possible to verify what happened to the funds or whether that amount was in fact received by PSND.

<sup>1/</sup> Exchange Rates

\$1.00 = 2166.15 as of April 11, 1986

\$1.00 = 2198.99 as of July 26, 1988

The auditors noted that some improvements had been made to the accounting systems of both PSND and CBZO after the Coopers and Lybrand audit, however, numerous errors and inconsistencies were still evident. There was no improvement in the supervision provided, such as verification of accounting entries and testing of the systems. The records were also improved but stricter measures were needed to ascertain that supporting invoices were bona-fide.

Tulane should carefully review all expense vouchers and the related supporting documentation received from its two subcontractors in Zaire to ensure compliance with A.I.D. Handbook 13 and determine the need to audit grant funded subprojects based on its reviews of invoices.

Columbia University Grant Funded Subprojects (DPE-3030A-00-4049)

Columbia University (Columbia) initiated a total of 23 grant funded subprojects in Africa and Haiti. Funds budgeted for these subprojects totaled \$1.8 million with expenditures totaling \$1.3 million as of June 30, 1989. According to Columbia's Director for Field Operations in Africa, some of the OR subprojects had been audited, however he did not know the number or the frequency of audits. He said that his office was responsible for providing technical assistance and Columbia's business office in New York took care of the financial aspects for the subprojects. As such, the subprojects reported directly to New York on financial matters. Subprojects were not required to submit invoices to either the field office or New York for review and reimbursement of expenses, however, they were required to submit a monthly expenditures report and a quarterly narrative report describing the activities carried out during the period, major successes achieved and/or major problems encountered, and significant events which may substantially affect the project.

According to the Columbia's Field Office Director, the system worked well because he was not aware of any major problems. However, the audit of two grant funded subprojects in the Ivory Coast revealed the expense review process was inadequate for the following reasons:

- Institut de Formation Continue de Cadres pour le Developpement (IFCAD) was subcontracted by Columbia to implement, administer, and evaluate the Factory-Based Operations Research project. The cost of this subproject

was \$23,426 of which \$15,091 had been spent as of July 31, 1989. The total expenditures reported to Columbia were underreported by CFA 72,500 (\$222) <sup>2/</sup>; the subproject's accounting system was lacking, invoices reviewed by the auditors lacked purpose, dates, and identification of recipients; thus invoices totaling CFA 2,139,950 (\$6,564) <sup>2/</sup> were not acceptable; a total of CFA 1,717,400 (\$5,266) <sup>2/</sup> could not be accounted for; and payments totaling CFA 135,300 (\$415) <sup>2/</sup> could not be verified. As a result, IFCAD could not obtain adequate evidence from subproject officials to support \$12,025 of subproject's expenditures.

- The University Hospital of Cocody (COCODY) was to implement, administer, and evaluate the project, Promotion of Family Planning in Ivory Coast Among Women at High Risk of Maternal Mortality. The modified funding for this subproject totaled \$99,535 of which \$54,233 had been spent as of June 30, 1989. The auditors found invoices totaling CFA 5,656,450 (\$17,844) <sup>3/</sup> reported as subproject expenses lacked adequate supporting documentation, thus they were not allowed as expenses. Again, as stated previously in this report, the accounting system was lacking and invoices lacked vital information such as purpose, dates and identity of recipients. As a result a total of \$37,336, including overhead costs, were not properly supported and thus not allowed.

#### Population Council Grant Funded Subprojects (DPE-3030-C-4074)

The Population Council (Council) initiated 43 grant funded subprojects in the Latin America/Caribbean Region (LAC). The budgeted cost of these subprojects was \$3.2 million of which \$2.4 million had been spent as of April 26, 1989. According to the Council's Program Director for LAC, subprojects funded under the prime A.I.D. agreement had not been audited because there were no funds budgeted in the agreement and the verification system in use had not surfaced the need for detailed audits. However, he opined that subprojects should be selected for audit at different intervals depending on the amount of monitoring provided by the Council.

The Council required subgrantees to submit quarterly financial status reports. These financial reports were summaries of expenditures accumulated during the specific reporting period based on budgetary authorization. Also, the subgrantees were

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<sup>2/</sup> Exchange Rate \$1.00 = CFA 326 as of July 21, 1989

<sup>3/</sup> Exchange Rate \$1.00 = CFA 317 as of May 31, 1989

required to submit semi-annual program reports stating the objectives of the period, the activities performed, the degree of success in meeting the objectives, and any problems that occurred.

Copies of these reports were sent to both the Council's Regional office in Mexico and the main office in New York, N.Y. These reports served as the subgrantee's reimbursement or advance liquidation whereby a percentage of the amount obligated would be paid upon receipt of the reports. The Council reviewed the reports to ascertain compliance with the agreement and to ensure that budgeted amounts were not exceeded. There was no review of the documentation supporting expenses unless the regional office had been made aware of a potential problem. However, the audit found expenditures valued around \$22,793 that were not allowed as subproject expenses.

The audit of one subproject in Mexico found the voucher review process used by a subcontractor was lacking because:

- The Mexican Foundation for Family Planning (MEXFAM) accounting system showed several transactions consisting of small amounts were erroneously posted.
- MEXFAM rented two Personal Computers (PCs) it owned to the subproject at an average cost of \$1,033<sup>4/</sup> per month from February 1987 until May 1988. The monthly rental rate was determined as a result of alleged inquiries made of local computer rental businesses which quoted orally a fee of about \$500 for the rental of a similar computer. MEXFAM officials claimed that they orally obtained the Council's regional office's authorization to rent to the subproject two computers at the quoted price. We concluded that \$16,535<sup>4/</sup> (19,200,000 pesos) was not properly used for subproject purposes because the amount was excessive as explained below.

MEXFAM was a subcontractor under the agreement between the Population Council and A.I.D. to improve the cost-effectiveness of MEXFAM's programs through the use of operations research as a management tool. The MEXFAM subcontract was effective from February 1, 1986 to July 31, 1987; however, this period was later extended to June 30, 1988. The fixed value of this subcontract was \$66,932.

<sup>4/</sup> Exchange Rate - 1,161.20 pesos = \$1.00

Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Nonprofit Organizations", Attachment A, A.3. defines Reasonable Costs. "A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs." Also Attachment B, OMB Circular A-122 states that, ". . . rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased."

Moreover, Attachment B specifies that, "Rental costs under less-than-arms-length leases are allocable only up to the amount that would be allowed had title to the property vested in the organization. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other."

The PCs were used for the OK subproject, however, the amount charged as rental fees was beyond what a prudent person would have accepted as reasonable. Although there was a need for computer services, it is questionable that there was a need for the rental of two PCs. Furthermore, a prudent person would question whether this subproject had actually accomplished its goal of improving cost-effectiveness if the subproject's implementing agency was allowed to charge the subproject over \$1,000 per month for the rental of the two PCs used on a small subproject (\$58,000 actual cost per final report), which MEXFAM was using to improve its own activities. Surely, for the total amount paid to MEXFAM, \$16,535 in computer rental fees, which was approximately 29 percent of total subproject costs, it probably would have been more cost-effective for the Council to have purchased the computer needs of the subproject.

When this issue was surfaced to the Council's Program Director for Latin America, he said that the Council had approved the rental of the two PCs from MEXFAM because telephone inquiries made to local computer rental businesses had indicated that the local going rate for the rental of such equipment would be around \$500 per PC per month. There was no documentation available to support the rental cost quotations. Furthermore, there was no lease agreement with MEXFAM to rent the two PCs to the OK subproject. The reason given for the lack of a rental lease was that funds had been budgeted in the agreement (budget) for this purpose, therefore the idea of requiring a lease did not come to mind.

This whole arrangement can be categorized as less-than-arms-length transaction in view that the general objective of the subproject was to improve the cost-effectiveness of MEXFAM's programs and MEXFAM as the subproject's implementing agency was in a position to influence actions relating to the subproject. The Council should provide to A.I.D. documentation demonstrating the need for two PCs for this small subproject and to specifically justify the amount charged for computer rental. The reasonableness of these charges should be considered using the guidelines of OMB Circular A-122 (Exhibit 1).

The audit also found that the voucher review processes employed by the three subcontractors reviewed in Honduras, the Honduran Institute of Social Security (IHSS), the Honduran Association for Family Planning (ASHONPLAFA), and the National Breast-Feeding Program (PROALMA) were just as inadequate to properly determine whether incurred expenses were allowable. For example:

- IHSS employees expenses for meals were allowed as subproject expenses because the employees had to work irregular hours. No travel away from home was involved. The auditors found 13 invoices totaling approximately \$144 for meals of subproject employees. These expenses are the personal responsibility of each individual and should not have been paid with subproject funds since the employees were not away from home on duty.
- PROALMA was not considered a "legal person" by local law therefore its administration and accounting functions were subcontracted to the Federation of Private Development Organization of Honduras (FOPRIDEH). This organization maintained records and accounting for PROALMA, however its policy for acceptability of documentation was disputed by the PROALMA's technical director who wanted FOPRIDEH to accept all expenditures submitted without providing complete supporting documentation. As a result, there were some liquidation claims over a year old that had not been resolved.
- At ASHONPLAFA, the expenditure review process was performed in-house. The audit found that subproject related expenses were liquidated upon presentation of paid invoices but some of the documentation did not specify why the expenditures had been incurred.

Both, the Council and Columbia did not require the subcontractors to submit supporting documentation of reported expenditures to their regional offices for review. The subcontractors were to retain these documents for post-project

audits. This procedure did not provide adequate control over and accountability for A.I.D. sponsored subproject funds in view of the lack of a systematic audit activity. The only absolute control provided by this procedure was that the cumulative total obligated under the subcontract could not be exceeded.

While all the reports were reviewed and approved by responsible personnel at the two contractor/grantee main offices, the lack of underlying documentation again provided no basis to support these approvals and it had no meaning from an internal control standpoint. Expenditure summaries and related documentation should be received and reviewed by a voucher examiner for completeness, accuracy, and allowability. The audit showed that a significant portion (\$91,256) of the expenses incurred by subgrantees and charged to A.I.D. funded subprojects were not allowable. In conclusion, the stated examples indicate the need for a more thorough review process of documentation related to subproject expenditures and the need to audit subprojects on a consistent basis.

#### Management Comments

The Bureau for Science and Technology agreed with part b of the audit recommendation and requested parts a, c, and d be referred to Management Services/Office of Procurement (MS/OP).

The Bureau for Management Services requested the inclusion in the report of specific agreement numbers in order to take corrective actions to satisfy the audit recommendation.

#### Office of Inspector General Comments

The actions taken by the Bureau for Science and Technology and the Bureau for Management Services satisfy the intent of the audit recommendation which is considered resolved and will be closed upon receipt of documentation that proposed actions in process have been completed.

### 3. Long-Term Success of Service Delivery Systems Needed to be Further Addressed

One of the two specific goals of the Operation Research (OR) project was to support the institutionalization of OR in less developed countries. The other was to improve the quality, accessibility and cost-effectiveness of service delivery systems. Evidence for longer term organizational commitment and capability to conduct future OR activities was limited. This was partly a result of the overall emphasis on subproject development by the OR contractor/grantees. As a result, there was no assurance that long term institutional development would occur after A.I.D. funding ceased. The new Maximizing Results of Operations Research (MORE) project, however, appears to be the type of mechanism needed to gather information on long-term impact but its initial life is limited to three years.

#### Recommendation No. 3

We recommend that the Bureau for Science and Technology, Directorate of Population:

- (a) require contractors and grantees to strengthen attention to longer term organizational commitment and capability to undertake future Operations Research activities;
- (b) require that future final reports on project completion contain a detailed description of institution strengthening activities; and
- (c) establish a continuing monitoring mechanism to ensure continuity and reporting of Operations Research project activities after A.I.D. funding ends.

#### Discussion

Institutionalization of Developing Countries Ability to Use OR Concepts - A.I.D. policy states that institutional development is an important factor that must be considered in project design and implementation. Institutionalization is essential for providing a country the self-sustaining capacity to solve critical development problems. An effective institution is one in which host country resources will foster development that can be sustained after external assistance is withdrawn. OR projects have emphasized two aspects of institution strengthening. First, is the significant role of OR in improving organizations ability to provide family planning services more efficiently and effectively. Second, is the role

of OR in improving "human capital" capability by fostering a problem solving mentality and including developing country personnel in every phase of OR.

While there was some evidence of strengthening of "human capital" to utilize OR skills and approaches, that organizations involved continued to use technology transferred, and that service delivery systems continued after A.I.D. support terminated, longer term organizational commitment and capability to conduct future OR activities needed further attention. Evidence of such activities was limited. For example, according to an S&T/POP/R official, "an OR project with MEXFAM was aimed at strengthening the family planning Management Information System (MIS) to be used for future evaluation and monitoring activities. Likewise, in Zaire, the Public Health Department (PSND) has developed an 'OR unit' Nevertheless, the audit found such examples to be limited.

There seemed to be limited attention paid by contractor or grantee staff to the issue of longer term organization ability to carry out OR activities. This was partly a result of the overall emphasis on subproject development by the OR contractor and grantees. In order to fully achieve A.I.D.'s goals of institutionalization, advance planning and emphasis on sustained organizational conduct of OR should be made. This will require contractors/grantees to emphasize leadership, personnel and funding for long-term organizational institutional development prior to and during the implementation of OR activities and to report on the status at the end of the contract/grant. This will increase the likelihood that such activities will occur after the project is over and A.I.D.'s financial support ceases.

**A Follow-on Mechanism Needed on the Long-term Impact of Service Delivery Systems Developed** - An important measure of OR project success is whether the models developed and tested can be sustained after initial donor support comes to an end. In the earlier years, OR projects were relatively few and the long-term impact could often be assessed on a case-by-case basis. As the value of OR has grown, however, and its application evolved to include increased emphasis on incremental changes to pre-existing programs, the number of OR studies has increased dramatically. A total of 109 OR subprojects had been implemented by the four prime contractor/grantees, the Population Council (Council), Columbia University (Columbia), the University Research Corporation (URC) and Tulane (Tulane) University. Each of the four prime agreements was for a period of five years.

In some instances, the strategies implemented by the prime contractor/grantees generated the interests of policymakers and USAID officials for replicating projects either at the local

level or in other countries. For example, the Pro-Family (PROFAM) project on condoms implemented by the Council in Mexico had national policy impact and effectively introduced condoms to national supermarket chains. Also, the Council's strategy for reproductive risk approach implemented by the Mexican Institute of Social Security contributed to the replication of this strategy in Honduras, Peru and Bolivia. Nevertheless, the long-term impact for many of the subprojects was unknown because there was no mechanism in the specific agreements to assess the long-term impact after A.I.D.'s support ended.

The auditors reviewed the latest semi-annual reports prepared by Tulane, Columbia, and the Council; however, these reports did not contain specific steps planned or established to ensure the institutionalization of OR successes or lessons learned from unsuccessful attempts after the project funding ended.

Recognizing the need to assess long-term impact, A.I.D.'s Bureau for Science and Technology/Population/Research (S&T/POP/R) has developed the Maximizing Results of Operations Research (MORE) project and has contracted TVT Associates to: (1) provide programmatic guidance for future activities; (2) disseminate research results and lessons learned from the projects to policymakers, program managers, etc.; and (3) conduct secondary analysis of data gathered by the OR program to maximize lessons learned from existing data. The activities include a so-called "look back" exercise specifically to examine the long-term impact of OR.

The contract will cover 166 family planning OR projects supported by A.I.D. in 42 countries in the past 15 years. The MORE project definitely appears to be the type of follow-on mechanism needed to gather information on the long-term impact of OR. However, the life of this project was limited to three years and it was not known whether it would be extended beyond the expiration date. A.I.D. should make a longer term continuing commitment to follow up on the success of service delivery systems developed during the OR project.

#### Management Comments

In its comments to our draft audit report, the Bureau for Science and Technology agreed with audit recommendation No. 3 and stated that institution strengthening merited special emphasis. It also agreed to continue to focus attention on the importance of institution strengthening including requiring future reports to have a detailed description of activities.

Office of Inspector General Comments

We believe the actions reported by the Bureau for Science and Technology are responsive to the audit recommendation. The audit recommendation is considered resolved and will be closed upon receipt of documentation of notification to contractors/grantees of proposed actions.

## B. Compliance and Internal Control

### Compliance

The audit disclosed several compliance exceptions. First, monitoring of operation research activities was hampered because funds were not available for project officers to make field visits. Also, project evaluations were not made as described in the agreements with project implementing organization (Finding 1). Second, subprojects were not being audited in a systematic manner (Finding 2). Finally, A.I.D.'s institutional development concepts were not fully implemented (Finding 3). All other tested items were in compliance with applicable laws and regulations and nothing came to our attention to believe that untested items were not in compliance.

### Internal Control

The audit disclosed three internal control exceptions. The lack of audit coverage and expense verification processes used by the implementing organizations were major factors in seven subprojects using \$91,256 in unallowable and/or unaccounted for expenditures (Finding 2). Principal investigators assigned to overseas locations were spending considerable time away from their posts. This hindered adequate supervision of project financial activities (Finding 2).

### C. Other Pertinent Matters

A.I.D. policy sets forth in Handbook 22, paragraph 135, a "legal requirement that all government financed air travel be performed on U.S. air carriers where such service is available." The audit disclosed that Population Council (Council) employees did not always use U.S. flag air carriers when leaving or entering the United States. This occurred because the Council's officer approving international travel had not established the necessary internal controls to ensure that U.S. flag air carrier service was utilized to the maximum extent possible.

However, foreign flag air carriers were used by Council personnel on three separate occasions when departing from or entering into the United States even though U.S. flag air carriers were available to provide the service.

AUDIT OF STRATEGIES  
FOR  
IMPROVING SERVICE DELIVERY

PROJECT NO. 936-3030

PART III - EXHIBITS AND APPENDICES

[Circular No. A-122]

Attachment A

General Principles

A. *Basic Considerations.*

1. *Composition of total costs.* The total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits.

2. *Factors affecting allowability of costs.* To be allowable under an award, costs must meet the following general criteria:

a. Be reasonable for the performance of the award and be allocable thereto under these principles.

b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.

c. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.

d. Be accorded consistent treatment.

e. Be determined in accordance with generally accepted accounting principles.

f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.

g. Be adequately documented.

3. *Reasonable costs.* A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:

a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award.

c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and

[Circular No. A-122]

Attachment B

Selected Items of Cost

Paragraphs 1 through 50 provide principles to be applied in establishing the allowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost is not intended to imply that it is unallowable; rather determination as to allowability in each case should be based on the treatment or principles provided for similar or related items of cost.

42. *Rental costs.*

a. Subject to the limitations described in paragraphs b. through d. of this paragraph, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased.

b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property.

c. Rental costs under less-than-length leases are allowable only up to the amount that would be allowed had title to the property vested in the organization. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between (i) divisions of an organization; (ii) organizations under common control through common officers, directors, or members; and (iii) an organization and a director, trustee, officer, or key employee of the organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

d. Rental costs under leases which create a material equity in the leased property are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed; e.g., depreciation or use allowances, maintenance, taxes, insurance but excluding interest expense and other unallowable costs. For this purpose, a material equity in the property exists if the lease is noncancelable or is cancelable only upon the occurrence of some remote contingency and has one or more of the following characteristics:

(1) The organization has the right to purchase the property for a price which at the beginning of the lease appears to be substantially less than the probable fair market value at the time it is permitted to purchase the property (commonly called a lease with a bargain purchase option).

(2) Title to the property passes to the organization at some time during or after the lease period.

Schedule of Project Funds  
Not Accounted for by Tulane Subcontractors

<u>Description</u>	<u>CBZO</u>			<u>Total</u>
	<u>Sona Bata</u>	<u>Nsona Mpangu</u>	<u>PSND</u>	
Funds Received	Z 18,160,263	Z 20,387,860	Z 73,005,961	Z 111,554,084
Expenses Claimed	<u>12,636,953</u>	<u>14,653,069</u>	<u>62,729,293</u>	<u>90,019,315</u>
Unused Balance	5,523,310	5,734,791	10,276,668	21,534,769
Bank Balance	4,954,956	3,619,352	6,232,865	14,807,173
Funds Unaccounted For	<u>Z 568,354</u>	<u>Z 2,115,439</u>	<u>Z 4,043,803</u>	<u>Z 6,727,596</u>
	<u>(\$2,104.00)<sup>5/</sup></u>	<u>(\$7,830.00)</u>	<u>(\$14,967.00)<sup>5/</sup></u>	<u>(\$24,901.00)</u>
Overhead Computed on				
Unaccounted Funds at 25%	526.00	1,958.00	3,742.00	6,226.00
Total Not Allowable	<u>\$ 2,630.00</u>	<u>\$ 9,788.00</u>	<u>\$ 18,709.00</u>	<u>\$ 31,127.00</u>

<sup>5/</sup> Exchange Rate as of December 31, 1988 \$1.00 = Z 270.18

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Exhibit 3

Schedule of Non-Allowable Costs  
Charged As Project Expenses By  
Columbia University

<u>Subcontractor - IFCAD</u>	<u>Amount</u>
Invoices not Acceptable or Accountable	\$11,832.00
Payments not Verified	415.00
Underreported Expenses	(222.00)
 <u>Subcontractor - COCODY</u>	
Invoices not Supported	<u>17,844.00</u>
Total Non-Allowable	<u>\$29,869.00</u>
 Overhead Computed on Non-Allowable Costs at 25.0 %	 <u>7,467.00</u>
Total Disallowed Costs	<u>\$37,336.00</u>

Schedule of Non-Allowable Costs  
Charged As Project Expense By  
The Population Council

<u>Subcontractor - MEXFAM</u>	<u>Amount</u>
Professional Fees for Computer Programming and Related Services not Allowable	\$ 619.00
Overstated Salary Account	31.00
Overstated Transportation Equipment Maintenance Account	137.00
Rental for Two Personal Computers	16,535.00
 <u>Subcontractor - IHSS</u>	
Employees Meals not Allowable	\$ 144.00
Total not Allowable Costs	<u>\$17,466.00</u>
Overhead Computed on not Allowable Costs at 30.5%	\$ 5,327.00
Total Non-Allowable Costs	<u>\$22,793.00</u>

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

MAR 14 1990

MEMORANDUM

TO: IG/PSA, Richard C. Thabet  
FROM: AA/S&T, Brad Langmaid (Acting)  
SUBJECT: Draft IG Report, Audit of Strategies for Improving Service Delivery

1990 MAR 15 11:03:00

The following is our response to the draft audit.

Recommendation No. 1

- (a) allocate travel funds for its project managers to visit project sites for the purpose of overseeing project implementation;

Response We wholeheartedly agree. More travel funds should be allocated for project managers to visit project sites. We will make every effort to allocate more money for this purpose. Nevertheless, it must be recognized that our chronically insufficient operating expense budget seriously impairs our ability to provide such funds.

- (b) require operations research contractors and grantees to provide all trip reports (or else a comparable timely reporting system) on visits to subprojects to their respective Cognizant Technical Offices including a discussion of problems encountered and actions taken to resolve them;

Response We agree. It is in large measure precisely because of our limited travel funds for AID/W staff that we have engineered our operations research agreements to include a large number of resident staff to provide comprehensive technical assistance. Field staff are highly engaged on these projects. This modus operandi allows for numerous visits to projects on a continuing basis. In this circumstance we believe either of the

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two alternatives makes sense. Either trip reports should be prepared on every regional trip and provided to the CTO, or periodic subproject interim technical reports should be prepared and provided. We will so communicate to our cooperating agencies.

- (c) systematically emphasize with principal investigators the detrimental effect of absences from post or subprojects and actively scrutinize and question requests for such international travel;

Response We agree. We have and will continue to follow this recommendation. Given the inability of A.I.D. staff to conduct site visits and the mandate for disseminating OR findings, we believe the average of approximately three trips per year by Principal Investigators is actually quite reasonable.

- (d) implement an independent evaluation of the operations research project prior to the development of the project paper for the next follow-on operations research project;

Response We agree. The evaluation is scheduled for 1993. In addition, in conjunction with the MORE project we are planning a major two-day international meeting with approximately 150 participants, followed by a smaller workshop of about 50 participants. The purpose of these meetings is to determine and present lessons learned from OR and chart future directions.

- (e) establish guidelines on documenting management reviews held with project contractors or grantees.

Response We agree. As the audit report notes we have been conducting such meetings but no general guidelines exist. A subcommittee of our Evaluation Task Force is currently undertaking the development of such guidelines. In addition the office is undertaking a more formal review of annual workplans.

#### Recommendation No. 2

- (a) amend cooperative agreements for the implementation of operations research projects by requiring subcontract audits and attaching to the contracts the Mandatory Standard Provisions of A.I.D. Handbook 13, Appendix 4C;

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- (b) in collaboration with Operational Research contractors and grantees, develop a reasonable plan of action to provide adequate audit coverage to subprojects;
- (c) issue a bill of collection to contractors and grantees for items listed on Exhibits 2,3 and 4 amounting to \$91,256; and
- (d) require Tulane University to provide documentation as to what actions it plans to recover \$16,074 presumably misappropriated by a subproject employee of the Zaire Department of Public Health.

Response Parts a, c and d fall within the sphere of the contracting officer and should be referred to MS/OP. We agree with recommendation part b. We propose the following with respect to our contractors and grantees:

Population Council - Their current policy is to audit subprojects of \$25,000 or more, or if some other indication arises that an audit would be worthwhile. We have budgeted money under Africa OR and the new INOPAL-II-OR project for Latin America. In addition we have now budgeted almost \$75,000 for audits under the no-cost extension of the INOPAL-I contract.

University Research Corporation (URC) - URC's Asia OR contract was not included in the IG audit. However, it is actively ongoing. Attached are their auditing criteria which we believe are reasonable.

Columbia University and Tulane - Since these agreements are essentially finished we do not believe any additional action is needed.

Future Contracts - In future contracts, such as the new agreement for the Asia region, we intend to mandate a similar reasonable level of subcontract audits and will provide sufficient funds to carry them out.

Prevention through administrative/fiscal technical assistance - From discussions about this issue it seems clear that providing assistance in accounting practice, etc., is as important if not more important than audits after the fact. Accordingly, we are going beyond the audit recommendation to initiate, with the Population Council, a technical assistance activity in this area for the Africa OR and INOPAL-II contracts.

It is intended to focus on institutions with weak accounting systems and infrastructure. We consider this an important part of "Institution Strengthening."

Recommendation No. 3

- (a) require contractors to strengthen attention to longer-term organizational commitment and capability to undertake future Operations Research activities;
- (b) require that future final reports on project completion contain a detailed description of institution strengthening activities;

Response We agree that institution strengthening merits special emphasis. The audit report gives us credit for two types of institution strengthening (family planning service delivery and human capital). It also actually cites two examples of more "organizational" institution strengthening in Mexico and Zaire. We believe our accomplishments in institution strengthening easily satisfy the criteria in the 1983 A.I.D. Policy Paper.

Recognizing the importance of institution strengthening, we agree to continue to focus our attention on it including requiring future reports to have a detailed description of activities. For example the INOPAL-I final report has a major section on institution strengthening and institution strengthening will be a major topic at our global OR conference in June 1990.. At the same time it remains an open question as to what approach works best and what mix of efforts in institution strengthening is most productive in the long term.

- (c) establish a continuing monitoring mechanism to ensure continuity and reporting of contraceptive project activities after A.I.D. funding ends.

In recognition of this important concern we established the new MORE project (Maximizing Results of Operation Research) which has gotten into full swing since the audit. We believe MORE satisfies the report's concern.

Recommendation No. 4

We recommend that the Directorate for Program and Management Services in cooperation with the Bureau for Science and Technology ensure that all grantees have

established internal controls adequate to ensure maximum use of U.S. flag air carrier service at the time approval is provided for any international travel by their personnel.

**Response** This recommendation about internal controls over the murky area of exceptions to use of U.S. flag carriers belongs under the preview of the contracts officer and should be addressed to MS/OP.

We understand the Population Council has instituted new procedures regarding use of non-U.S flag carriers including the desired individual certification, where applicable.

**Attachments:**

1. Audit of Strategies for Improving Service Delivery (draft)
2. URC Subcontract Monitoring and Audit Guidelines

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523



ASSISTANT TO THE ADMINISTRATOR  
FOR MANAGEMENT

MAY 10 1990

MEMORANDUM

TO: IG/PSA, Richard C. Thabet  
FROM: AA/MS, Michael Doyle  
SUBJECT: Draft Inspector General Report, Audit of  
Strategies for Improving Service Delivery

In response to your memorandum of April 12, 1990, the following comments are provided:

- Recommendation 2 (a) - Please provide specific agreement numbers in your report. We will amend those agreements that do not presently require subproject audits and/or do not contain the Mandatory Standard Provisions of A.I.D. HB 13, Appendix 4C.
- (b) - The Office of Procurement will work with S&T/POP to develop the recommended plan.
- (c) - Please provide specific agreement numbers and we will take the action to resolve the questioned costs.
- (d) - Tulane will be contacted. Again, please provide the agreement number.

This confirms your telephone conversation of May 2, 1990 with Steve Dean in the Office of Procurement.

150 111 11 11 11 11

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LIST OF RECOMMENDATIONS

Recommendation No. 1 Page  
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We recommend that the Bureau for Science and Technology, Directorate of Population:

- (a) allocate travel funds for its project managers to visit project sites for the purpose of overseeing project implementation;
- (b) require operations research contractors and grantees to provide all trip reports (or a comparable timely reporting system) on visits to subprojects to their respective Cognizant Technical Offices including a discussion of problems encountered and action taken to resolve them;
- (c) systematically emphasize with principal investigators the detrimental effect of absences from post and actively scrutinize and question requests for such international travel;
- (d) implement an independent evaluation of the operations research project prior to the development of the project paper for the next follow-on operations research project; and
- (e) establish guidelines on documenting management reviews held with project contractors or grantees.

Recommendation No. 2 11

We recommend that the Office of Procurement and the Bureau for Science and Technology, Directorate of Population, as applicable:

- (a) amend cooperative agreements for the implementation of operations research activities by requiring subproject audits and attaching to the agreements the Mandatory Standard Provisions of A.I.D. Handbook 13, Appendix 4C;

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LIST OF RECOMMENDATIONS (Con't)

Page

Recommendation No. 2 (Cont)

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- (b) in collaboration with Operation Research contractors and grantees develop a reasonable plan of action to provide adequate audit coverage to grant funded subprojects;
- (c) resolve questioned costs amounting to \$91,256 with contractor/grantees for items listed on Exhibits 2, 3, and 4; and
- (d) require Tulane University to provide documentation as to what actions it plans to take to recover \$16,074 presumably misappropriated by a subproject employee of the Zaire Department of Public Health.

Recommendation No. 3

20

We recommend that the Bureau for Science and Technology, Directorate of Population:

- (a) require contractors and grantees to strengthen attention to longer term organizational commitment and capability to undertake future Operations Research activities;
- (b) require that future final reports on project completion contain a detailed description of institution strengthening activities; and
- (c) establish a continuing monitoring mechanism to ensure continuity and reporting of Operations Research project activities after A.I.D. funding ends.

APPENDIX 3

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