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AUDIT OF
ZAMBIA AGRICULTURAL TRAINING, PLANNING
AND INSTITUTIONAL DEVELOPMENT (ZATPID II)
PROJECT NO. 611-0207

AUDIT REPORT NO. 3-611-91-04
JANUARY 28, 1991

The project was generally making satisfactory progress in achieving its outputs. However,

there were non-returnees in the long-term training program, and

the overall success of the project was in jeopardy because of a \$3.3 million shortfall in life-of-project funding.

January 28, 1991

MEMORANDUM

TO : Fred E. Winch, Director, USAID/Zambia

FROM : Toby L. Jarman, RIG/A/Nairobi *Toby L. Jarman*

SUBJECT : Audit of USAID/Zambia's Agricultural Training, Planning and Institutional Development (ZATPID II) Project No. 611-0207

Enclosed are five copies of the subject report. In preparing this report, we reviewed your comments on the draft report and included them as an appendix to the final report. Recommendation No. 1 is unresolved. It will be resolved once the Mission agrees to establish monitoring procedures to enforce terms of future bonding agreements for long-term training participants, and closed when appropriate actions are completed. Recommendation No. 2 is resolved and will be closed when appropriate actions are completed. Please respond to this report within 30 days, indicating any actions planned or already taken to implement the recommendations. We appreciate the cooperation and courtesies extended to our staff during the audit.

Background

The goal of the Zambia Agricultural Training, Planning and Institutional Development (ZATPID II) Project is to (1) increase food production in Zambia and (2) raise the income of small farmers through improved policymaking, planning and support to those Zambian institutions in the agricultural sector.

Project implementation and monitoring is accomplished through the Project Executive Committee comprised of officials from the Government of the Republic of Zambia ("Government"), the technical assistance contractor and the Mission. Specifically, the project provides technical support, training and equipment to institutions which are critical to making policy, planning and allocating resources in the Zambian agricultural sector. The project's outputs are to:

1. undertake collaborative policy studies;
2. collect, process and analyze data to formulate and implement agricultural policy;

3. produce studies and plans for improved management systems and procedures and institutional coordination; and
4. train personnel in key analysis, management and decision making positions.

The project began on December 31, 1986 and is scheduled to end on October 31, 1993. Total project funding is \$17.4 million, of which A.I.D. plans to contribute \$11.1 million, mostly for technical assistance and training. As of June 30, 1990, \$6.6 million was spent as reported in the Mission Accounting and Control System. The Government's contribution consists of counterpart funds and logistical support totalling \$6.3 million.

Audit Objectives

We audited USAID/Zambia's Agricultural Training, Planning and Institutional Development (ZATPID II) Project to answer the following audit objectives:

1. What is the progress of the project in meeting its outputs?
2. Did USAID/Zambia obligate, spend and account for A.I.D. project funds in accordance with the grant agreement, and applicable A.I.D. policies and procedures?

In answering these audit objectives we tested whether USAID/Zambia (1) followed applicable internal control procedures and (2) complied with certain provisions of the grant agreement, and applicable A.I.D. policies and procedures. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, because of limited time and resources, we did not continue testing once we found that, for items tested, A.I.D., the Government and the Contractors followed policies, procedures and complied with legal requirements. But when we found problem areas, we performed additional work:

- . to conclusively determine that USAID/Zambia (or the Government) was not following a procedure or not complying with a legal requirement,
- . to identify the cause and effect of the problems, and
- . to make recommendations to correct the conditions and causes of the problems.

Our discussion of the scope and methodology for this audit is in Appendix I and our reports on internal controls and compliance are in Appendices III and IV, respectively.

Audit Findings

What is the progress of the project in meeting its outputs?

Following a troubled start--caused by delays in replacing three of the original technical advisors including the contractor's Chief of Party--the project was beginning to show progress in achieving its outputs. However, there were non-returnees in the long-term training program.

On the positive side, two policy studies (one of which was completed and the other underway under the first output) provided examples of successful collaboration between Government ministries as envisioned in the project's grant agreement. The first study, "A New Fertilizer Marketing System for Zambia", was published and distributed by various government ministries in collaboration with the ZATPID II project team and the International Development Center in May 1989. The study, for example, recommended a marketing system to improve the availability of fertilizers, organizational structure, institutional linkages, competition and pricing within the agricultural sector. As of September 6, 1990, the second study was underway regarding maize production.

Work performed under the second output--collecting, processing and analyzing data to formulate and implement agricultural policy-- was subcontracted to the United States Bureau of Census in 1984 under a Participating Agency Services Agreement. The work, which provided assistance to the Central Statistics Office in the areas of collecting, processing and analyzing agricultural and population statistics, was completed in March 1990 at a cost of about \$667,000. In addition, according to the Project Officer, 47 microcomputers were purchased at a cost of \$272,000 to support these activities. During the audit, we inspected 15 of these microcomputers and found they were properly accounted for, safeguarded and utilized.

The third output called for studies and plans to improve management systems, procedures and coordination within government institutions. For example, we interviewed one of the project's long-term technical advisors who believed that Zambia lacked an adequate management system for the design of development projects, and a field assessment was made by the project team to confirm this need. In early 1990, the technical assistance team developed a comprehensive set of procedures and a course to introduce a formal project design system in Zambia. The project design course was held in Lusaka in June and July 1990 and included 26 participants

from a wide range of agricultural-related institutions in Zambia. In addition, we interviewed 3 of the 26 participants, who stated that the course was valuable and, in their opinion, applicable to their jobs in the Planning Division of the Ministry of Agriculture.

Training was the final output we examined. As of September 6, 1990, 63 person-months of short-term training were completed of the 150 person-months required by the project grant agreement. This completion rate represents 42 percent of the project's short-term training requirements. At the time of our audit, it appeared that the short-term training objective would be achieved since almost three years remained before the project's completion date of October 31, 1993.

Of the 26 individuals sent to the United States for long-term training, 8 had completed training and returned to Zambia as of September 6, 1990. A total of 14 were still studying in the United States. Since the project's grant agreement called for 23 individuals to be sent for long-term training, the target was exceeded. However, not all of those sent abroad returned from training.

Some Long-Term Trainees Did Not Return

A.I.D. guidelines and bonding agreements between the Government and the training participants require trainees to return to work in their home country or repay the Government for training costs. Of 12 participants who should have completed training, 4 did not return or reimburse the Government for the cost of their training. This situation occurred because the Mission had not established monitoring procedures to ensure that the Government enforced the terms of the bonding agreements. As a result, an estimated \$209,000 in project funds were ineffectively used and non-returning trainees were not available to contribute to Zambia's development.

Recommendation No. 1: We recommend that the Director, USAID/Zambia establish monitoring procedures to ensure that the Government of Zambia enforces bonding agreements for long-term training participants.

A.I.D. Handbook 10, Supplement 1A, requires that all feasible steps be taken to ensure that A.I.D.-sponsored trainees return to work in their home countries and in positions where their training is utilized effectively. The Handbook also states that the timely return of trainees and their continued employment in fields relevant to development will also be major criteria in evaluating training programs. Handbook 10, Chapter 33, also states that should the number of non-returnees begin to hamper development efforts the mission and host country should plan a course of action

which halts the attrition. One of the options available to missions and host governments is the bonding of participants.

During the audit, we found that bonding agreements existed between the Government and the long-term training participants which required participants to:

- . complete the prescribed course of study,
- . return to work in Zambia upon completion,
- . repay the Government all money spent in connection with this training if the candidate fails to comply with the two items above, and
- . repay the Government all or a portion of the money spent if the candidate fails to serve the Government continuously upon his or her return for a period equal to the training, up to a maximum of four years.

As of September 6, 1990, 4 out of 12 participants, who should have completed training in the United States, had not returned to Zambia. Of the four who did not return, two completed training, one was terminated because of poor performance and the other left the program voluntarily before completion and emigrated to a third country. The four participants did not reimburse the Government for the cost of their training. Mission and Government officials further stated that Zambia cannot afford the loss of even one participant from the long-term training program.

Although the bonding agreements were adequate and in compliance with Handbook 10, the above situation occurred because the Mission had not established monitoring procedures to ensure that the Government enforced the terms of the bonding agreements. The enforcement process lacked the means to encourage participants to comply with its terms--such as requiring collateral from them before they went for training, withholding salary payments, cash awards, tax incentives or more rapid promotions after their return. During our audit, Government and Mission officials agreed that enforcement criteria needed to be established in the form of amendments to the bonding agreements or separate procedures which enforced the terms of the agreements. They further stated that the types of enforcement techniques described above, as well as others, would be considered.

...Zambia cannot afford the loss of even one participant from the long-term training program.

As a result of four participants not returning from long-term

training, an estimated \$209,000¹ in project funds were ineffectively used. Moreover, non-returning trainees were not available to contribute to Zambia's development programs.

To address the problem of non-returnees, we believe the Mission needs to establish monitoring procedures to ensure that the Government enforces provisions of the bonding agreements signed with the training participants. Such enforcement procedures should include tangible incentives or sanctions for non-returning trainees.

Did USAID/Zambia obligate, spend and account for A.I.D. project funds in accordance with the grant agreement, and applicable A.I.D. policies and procedures?

For the items tested, USAID/Zambia obligated, spent and accounted for project funds in accordance with the grant agreement, A.I.D. policies and procedures. However, the audit disclosed that funds needed to be reprogrammed and the project redesigned.

As of June 30, 1990, USAID/Zambia had obligated \$11.1 million for its share of project costs and, as reported in the Mission Accounting and Control System, spent approximately \$6.6 million, mainly for technical assistance, training and commodities.

We found that: (1) A.I.D. and counterpart expenditures were properly authorized, approved and recorded and (2) expenditure documentation for the counterpart account was adequate to support the expenses reported.

However, the Mission developed unrealistic cost estimates during the design phase of the project. Consequently, there will be a funding shortfall of \$3.3 million which could result in the curtailment of activities before the project's completion date of October 31, 1993.

USAID/Zambia Needs to Reprogram Funds and Redesign the Project

A.I.D. guidelines state that great care should be taken in estimating costs during project design. Nevertheless, the audit disclosed that total project funding was underestimated by more than several million dollars and that shortfalls will occur in

¹ Total estimated cost for this training is \$209,000. Of this amount, \$72,000 was funded by ZATPID II. The remainder of this estimated cost was funded under ZATPID I.

every area except training. The overall shortfall is the result of unrealistic cost estimates developed by the Mission during the design phase of the project. As a result, if action is not taken by the Mission, activities will have to be curtailed two years prior to the scheduled completion date of the project--and its overall success could be in jeopardy.

Recommendation No. 2: We recommend that the Director, USAID/Zambia:

- 2.1 reprogram funds which exceed those required to complete the training component of the project--approximately \$408,000--to areas where shortfalls exist in order to help alleviate the deficiencies; and
- 2.2 redesign the project or reevaluate funding levels so that project outputs can be successfully completed.

A.I.D. Handbook 3 states that no matter what the degree of difficulty, great care must be taken to arrive at realistic sources and cost estimates during project design since cost overruns can cause delays and/or operational problems. Specifically, if project inputs and benefits are not costed and valued accurately, the project's economic analysis could be upset and activities abandoned after significant resources are invested. Thus, timely and accurate costing can be crucial to project success.

A.I.D. Handbook 3 states that an amount normally not less than 10 percent of the base estimate should be included in the project design to allow for accidental omissions and errors in estimating the quantities of commodities or the number of person-years needed to complete the project.

Our audit showed that there will be a funding shortfall of about \$3.3 million, or 30 percent of the total life-of-project funding of \$11.1 million. For example, using mission and contractor data, we analyzed and identified funding shortfalls of about \$2.1 million in long- and short-term technical assistance and \$800,000 in administration, monitoring and in-country support. In fact, we found that shortfalls will occur in every project component except training which will have an excess of \$408,000 (See Appendix V).

The cause of the project's funding shortfall was unrealistic cost estimates developed by the Mission during the design phase of the project. For example, general and administrative expenses and contingency costs were not properly estimated during the project's financial design phase. Our interviews with Mission officials and review of the project's financial analysis revealed no provision for general and administrative expenses. This omission of general and administrative estimates, for example, caused an understatement of the life-of-project funding for long- and short-term technical

assistance and commodities totalling \$1.8 million of the overall \$3.3 million shortfall. Furthermore, our audit disclosed that the project's contingency factor was not estimated at 10 percent because the methodology suggested in A.I.D. Handbook 3 was not followed.

Shortfalls will occur in every project component except training which will have an excess of \$408,000.

If action is not taken to address the estimated \$3.3 million shortfall, project activities will have to be curtailed two years prior to the scheduled completion date of October 31, 1993. Specifically, three of the four project outputs--collaborative studies, agricultural data and studies to improve systems and procedures in the Government--are in jeopardy because there will be insufficient funds to fully complete them.

Therefore, we believe that the Mission needs to take immediate steps to partially offset the \$3.3 million shortfall by reprogramming the excess \$408,000 from the project's training component to other project components. In addition, the Mission needs to redesign the project or reevaluate funding levels so that the other outputs can be successfully achieved.

**MANAGEMENT COMMENTS
AND OUR EVALUATION**

USAID/Zambia accepted the report's findings and recommendations and concurred with the estimated dollar amounts cited in the report.

In response to Recommendation No. 1, mission management stated that the Government's Office of the Assistant Director for Manpower Planning and Development (MPPD) uses various methods to locate non-returnees when requested. These methods include (1) determining students' local or overseas addresses, (2) contacting the students' relatives and employers, (3) requesting the assistance of the Zambian ambassador in the country where non-returnees are thought to be, and (4) requesting forfeiture of government benefits, if students do not return. However, the Assistant Director had not been requested to assist in contacting any of the four non-returnees disclosed in our audit report. The Mission stated it will take steps to ask MPPD to initiate action to locate and contact non-returnees.

Recommendation No. 1 is unresolved. The above actions by the Mission address the problem for this project. However, the Mission needs to establish monitoring procedures to ensure that the Government enforces terms of future bonding agreements. We can resolve the recommendation when the Mission agrees to establish such procedures and close it when this office receives documentary evidence that those procedures have been established.

In response to Recommendation No. 2 mission management stated that they will reprogram approximately \$500,000 in savings from Training, Commodities and Contingency and increase project funding by \$3 million to provide the estimated shortfall noted in the report. In addition, they stated that the implementation plan will be updated to include economic reforms and action plans identified as necessary to enhance the efficiency and competitiveness of the agricultural sector.

Based on the above, RIG/A/N considers Recommendation No. 2 resolved. The recommendation can be closed when this office receives (1) documentation showing the actual amount of funds that have been reprogrammed and increased, and (2) the revised implementation plan described above.

SCOPE AND METHODOLOGY

Scope

We conducted a performance audit of the Zambia Agricultural Training, Planning and Institutional Development (ZATPID II) Project in accordance with generally accepted government auditing standards. We conducted the audit from May 8 through September 6, 1990 and reviewed the systems and procedures relating to the project's outputs from its inception on December 31, 1986 through September 6, 1990. During the audit, we also examined internal controls related to the findings and considered a prior audit.

We tested \$483,000 or 7 percent of A.I.D.'s total project expenditures of \$6,591,625 as reported in the Mission Accounting and Control System through June 30, 1990. We also tested \$505,650, or 37 percent, of the project's counterpart contribution accounts. The A.I.D. expenditures examined included payments associated with technical assistance, training and commodities, whereas counterpart expenditures included vehicle maintenance, training facility costs and office supplies.

Our tests of A.I.D.'s payments to contractors, however, consisted only of verifying that proper administrative approvals of contractor's invoices were made, and comparing the accuracy of the Mission Accounting and Control System's reports against these invoices. Our review of the contractor's invoices was limited because the accounting records supporting these invoices were not maintained in Zambia where the audit was performed.

With respect to the counterpart contribution accounts, we reviewed: (1) the administrative support and (2) the training and studies accounts. The administrative support account is controlled by USAID/Zambia, while the training and studies account is controlled by the contractor and does not completely fall under the scope of our audit objective. However, because all of the counterpart accounts have the same accounting and reporting requirements, we found it necessary to audit both of the aforementioned accounts. A third account, construction, was not examined because no activity had transpired in this account at the time of the audit.

As noted below, we conducted our field work in the offices of USAID/Zambia, the Government and the contractor in Lusaka, Zambia. We also performed audit work at A.I.D.'s Regional Financial Management Center in Nairobi, Kenya.

Methodology

The methodology for each audit objective follows:

Audit Objective One

The first audit objective consisted of gathering and verifying information to determine the progress of the project. To accomplish this objective, we tested all of the project's outputs to determine whether (1) collaborative studies were underway or completed (2) collecting, processing and analyzing data to formulate and implement agricultural policy was progressing (3) studies and plans to improve management systems and procedures for institutional coordination were underway and (4) short- and long-term training were progressing as planned.

To accomplish the above we interviewed host country, contractor, technical assistance and mission personnel involved in the project. In addition, we visited the Central Statistics Office of the Government and selected 15 of 44 microcomputers to verify that equipment belonging to the project was properly accounted for, safeguarded and used. The sample was selected using a systematic method starting with the first item and thereafter every third one. We also examined the project agreement, technical assistance contracts, inventory listings of equipment and other A.I.D. administrative files and project-related correspondence. The latter included minutes from the Project Executive Committee's meetings, correspondence between government officials and the Mission Director and training files.

In calculating the ineffective use of funds related to the four non-returnees under the training component, we validated, then used actual cost data provided by the Mission.

Audit Objective Two

The second audit objective consisted of gathering, testing and analyzing data to determine if A.I.D. obligated, spent and accounted for project funds in accordance with the grant agreement, and applicable A.I.D. policies and procedures. To accomplish this objective, we determined whether: (1) A.I.D. and counterpart expenditures were properly authorized, approved and recorded; (2) expenditure documentation for the counterpart account was adequate to support the expenses reported and (3) project estimates were reasonable and properly supported to ensure adequate funding through the project's completion date.

To accomplish the above, we reviewed contractor invoices to ensure that they were properly authorized, approved and recorded. A sample of the contractor's invoices, consisting of 23 percent of

total invoices, was selected whereby every fourth invoice was tested. We also validated the accuracy of the project's financial data by comparing output reports from the Mission Accounting and Control System against the contractor's vouchers.

In addition, we tested expenditures from the: (1) administrative support and (2) training and studies components of the counterpart contribution account, to ensure that these expenditures were properly supported with appropriate documentation. We selected every sixth transaction for testing the administrative support account. This sample totaled \$16,655 or 44 percent of the total value of the transactions for the fiscal year 1990. For the training and studies account, we selected the largest expense categories. Our sample consisted of \$489,000 or 66 percent of the total value (\$741,000) of transactions projected through calendar year 1990.

Further, we obtained the Mission's, contractor's and our life-of-project funding projections which consisted of actual costs through June 30, 1990 and estimated expenditures for the period of July 1, 1990 through October 31, 1993. We tested A.I.D. expenditures against the contractor's invoices and the Mission Accounting and Control System's reports to ensure the validity and accuracy of the expenditure data. From this expenditure data, we developed cost and financial ratios to analyze the reasonableness of the Mission's, contractor's and our projections for the period of July 1, 1990 through October 31, 1993, and when we found questionable data, we obtained supporting documentation, statements or assumptions from the Mission and contractor to support their projections. Also, where necessary, we developed our own trend data to analyze the funding projections. As a final step in our analysis, we reviewed our findings in detail with the Project Officer.

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APPENDIX II

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AIDAC FOR RIG/A/W, T.JARMAN FROM B. KOSHELEFF,
ACTING DIRECTOR

E.O. 12356:N/A

SUBJECT: AUDIT OF AGRICULTURAL TRAINING, PLANNING AND
INSTITUTIONAL DEVELOPMENT PROJECT NO. 611-0207

1. USAID/ZAMBIA HAS REVIEWED THE SUBJECT DRAFT AUDIT
REPORT AND ACCEPTS THE FINDINGS AND RECOMMENDATIONS
CONCERNING THE OVERALL PERFORMANCE OF THE PROJECT. THE
FOLLOWING COMMENTS AND INFORMATION ARE HEREBY PROVIDED
AS THE MISSION INITIAL RESPONSE TO THE RECOMMENDATIONS
AND THE CURRENT STATUS OF ACTIONS TAKEN SINCE THE AUDIT
FIELD WORK WAS COMPLETED IN EARLY OCTOBER 1990.

A. AUDIT RECOMMENDATION NO. 1 RECOMMENDS THAT THE
DIRECTOR, USAID/ZAMBIA ESTABLISH PROCEDURES TO ENSURE
THAT THE HOST GOVERNMENT DEVELOPS CRITERIA THAT
ENFORCES BONDING AGREEMENTS FOR LONG-TERM TRAINING
PARTICIPANTS.

USAID/ZAMBIA CONTACTED MR. E.K. KATONGO, ASSISTANT
DIRECTOR FOR MAN POWER PLANNING AND DEVELOPMENT (MPPD)
CONCERNING GRZ PROCEDURES FOLLOWED WHEN A PARTICIPANT
DOES NOT RETURN TO ZAMBIA WITHIN THE ALLOTTED TIME. HE
REPORTED THAT MPPD TAKES SERIOUSLY THE RESPONSIBILITY
OF ENFORCING THE BONDING AGREEMENT ON DELINQUENT
RETURNEES. MPPD USES THE FULL LIMITS OF ITS AUTHORITY
TO ENFORCE THE BONDING AGREEMENT SO THAT STUDENTS
RETURN TO GOVERNMENT SERVICE FOR THE AGREED TIME
PERIOD. HE STATED MPPD HAS HAD CONSIDERABLE EXPERIENCE
IN THIS KIND OF INVESTIGATION AND DOES NOT HESITATE TO
INITIATE THE PROCESS WHEN REQUESTED.

THE FORMAL PROCEDURE IS FOR A MINISTRY, DEPARTMENT,
ETC., TO NOTIFY MPPD THAT IN ITS BEST JUDGEMENT A
STUDENT IS NOT GOING TO RETURN OR HAS NOT RETURNED
WHEN HE/SHE WAS SUPPOSE TO. PERTINENT INFORMATION ON
LOCAL ADDRESS, OVERSEAS ADDRESS, AND NAME OF THE
PARENT OR GUARDIAN ARE INCLUDED IN THE NOTIFICATION.
IF THIS INFORMATION IS NOT PROVIDED OR OTHERWISE
AVAILABLE, MPPD WILL CONTACT THE EMPLOYER AND NEXT OF
KIN TO GET THE MOST CURRENT FOREIGN ADDRESS. MPPD,
THROUGH THE ZAMBIAN MINISTRY OF FOREIGN AFFAIRS, THEN
REQUESTS THE ZAMBIAN AMBASSADOR'S ASSISTANCE IN THE
COUNTRY WHERE THE PARTICIPANT IS THOUGHT TO BE. THE

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AMBASSADOR THEN REQUESTS THE RELEVANT LOCAL AUTHORITIES TO ISSUE A NOTICE TO THE STUDENT THAT HE MUST RETURN TO ZAMBIA.

IF A STUDENT CANNOT BE LOCATED OR REFUSED TO LEAVE A COUNTRY THE ONLY RECOURSE AT MPPD'S DISPOSAL IS TO REQUEST THE FORFEITURE OF PENSION PAYMENTS OR OTHER GOVERNMENT BENEFITS BEING PAID TO THE STUDENT AND HIS/HER FAMILY.

MR. KATONGO HAS NOT RECEIVED A REQUEST TO ASSIST IN CONTACTING ANY OF THE FOUR STUDENTS DISCLOSED IN THE DRAFT AUDIT REPORT. AS SOON AS HE RECEIVES A FORMAL REQUEST HE WILL INITIATE THE PROCESS MENTIONED ABOVE. MR. KATONGO SUGGESTED THAT THE REQUEST BE DIRECTED TO HIM PERSONALLY SO THAT HE CAN EXPEDITE THE NECESSARY ACTION. USAID WILL REQUEST THE MINISTRY TO ASK MPPD TO IMMEDIATELY INITIATE THE APPROPRIATE ACTION TO LOCATE AND CONTACT THE NON-RETURNEES. COPY OF USAID'S LETTER DATED NOVEMBER 29, 1990 TO THE GRZ WHICH REQUESTED ACTION TO BE TAKEN ON SIX (6) PARTICIPANTS WHO SHOULD HAVE RETURNED TO ZAMBIA BUT HAVE NOT AND A COPY OF THE GOVERNMENT'S BONDING AGREEMENT WILL BE FORWARDED TO RIG/A/N ON DECEMBER 31, 1990.

B. AUDIT RECOMMENDATION NO. 2 RECOMMENDS THAT THE DIRECTOR (1) REPROGRAM FUNDS WHICH EXCEED THOSE REQUIRED TO COMPLETE THE TRAINING COMPONENT OF THE PROJECT--APPROXIMATELY DOLS 408,000--TO AREAS WHERE SHORTFALLS EXIST IN ORDER TO HELP ALLEVIATE THE DEFICIENCIES AND (2) REDESIGN THE PROJECT SO THAT REVISED OUTPUTS CAN BE SUCCESSFULLY COMPLETED. --2.1 THE ORIGINAL AUTHORIZATION OF DOLS 11 MILLION WILL BE INCREASED AUTHORIZING AN ADDITIONAL DOLS 3 MILLION. SAVINGS OF DOLS 0.5 MILLION FROM TRAINING, COMMODITIES, AND CONTINGENCY WILL BE ADDED TO THE DOTS 3 MILLION TO PROVIDE THE ESTIMATED DOLS 3.3 MILLION BUDGET SHORTFALL NOTED IN THE AUDIT REPORT. THE PROPOSED DOLS 3.3 MILLION INCREASE WILL PROVIDE SUFFICIENT FUNDING TO COMPLETE ALL CURRENT AND PLANNED ACTIVITIES AND MEET THE PROJECT'S GOAL AND PURPOSE BY THE TERMINATION DATE OF OCTOBER 1993.

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--2.2 THE PROJECT GOAL AND PURPOSE ARE STILL VALID. THE MISSION HAS CONCLUDED THAT IT WOULD BE COUNTERPRODUCTIVE AT THIS STAGE TO REDESIGN THE PROJECT. THE IMPLEMENTATION PLAN WILL BE UPDATED TO INCLUDE ECONOMIC REFORMS AND ACTION PLANS IDENTIFIED AS NECESSARY TO ENHANCE THE EFFICIENCY AND COMPETITIVENESS OF THE AGRICULTURE SECTOR. ALSO, THE UPDATE WILL ASSURE CONTINUITY WITH PROJECT OUTPUTS, E.G., POLICY STUDIES AND ANALYSIS, AND INSTITUTION AND PERSONNEL DEVELOPMENT, ALREADY IN PROCESS OR COMPLETED.

2. PLEASE REVIEW THE ABOVE COMMENTS AND ADVISE THE MISSION WHETHER OR NOT ANY OF THE RECOMMENDATIONS DISCLOSED IN THE SUBJECT DRAFT REPORT CAN BE CLOSED. STREEB

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REPORT ON INTERNAL CONTROLS

During our audit, two weaknesses in internal control came to our attention. The following is a description of these weaknesses as they pertain to our specific audit objectives.

Audit Objective One

This objective relates to the progress of the project. In planning and performing our audit of the project's progress, we considered the grant agreement and the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 10. For the purposes of this report, we have classified the relevant policies and procedures into the following categories: the participant training process (selection, monitoring and control), equipment inventory and control process, and the mission's project monitoring and control process.

We noted the following reportable condition in the participant training process:

the Mission had not established monitoring procedures to ensure that the Government enforces the participant training bonding agreements.

The above weakness in internal controls resulted in the ineffective use of an estimated \$209,000 in project funds.

Audit Objective Two

This audit objective relates to the obligation, expenditure and accountability of project funds. In planning and performing our audit of project funds, we considered the applicable internal control policies cited in A.I.D. Handbook 19, and the applicable procedures cited in the Grant Agreement between A.I.D. and the Government. We also considered applicable requirements cited in the contracts between A.I.D. and the Technical Assistance Contractors. For purposes of this report, we have classified the relevant policies and procedures into the following categories: the project's financial design process, A.I.D.'s payment process, and the operation of the counterpart fund accounts.

We noted the following reportable condition in the project's design process:

the Mission did not adequately estimate life-of-project funding.

The above weakness in internal controls resulted in an excess of \$408,000 under the training component and an overall funding shortfall of \$3.3 million for the project.

Our consideration of internal controls would not necessarily disclose all reportable conditions and, accordingly, would not necessarily disclose all matters that might be reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described under audit objectives numbered one and two are material weaknesses.

REPORT ON COMPLIANCE

Our audit disclosed the following significant instances of non-compliance:

- . Audit Objective No. 1 - The Grantee had not submitted written annual workplans for A.I.D. approval as required by Section 5 of the project grant agreement. However, the audit disclosed that workplans were discussed during meetings of the Project's Executive Committee.
- . Audit Objective No. 1 - The Mission had not scheduled a mid-term evaluation during the project's third year as required by Annex 1, Section V of the project grant agreement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Zambia, contractors, and the Government complied, in all significant respects, with contracts and the grant agreement applicable to the Project. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/Zambia, contractors, and the Government had not complied, in all significant respects, with contract and the grant agreement applicable to the Project.

Estimated Shortfall In Life-of-Project Funding

(\$000)

<u>Category</u>	<u>Original Life-of- Project Funds¹</u>	<u>Projected Life- of-Project Funds²</u>	<u>Overage (Shortfall)</u>
Technical Assistance/ Long-Term	5,511	6,790	(1,279)
Technical Assistance/ Short-Term	1,485	2,272	(787)
Training			
Long-Term	1,425	1,425	0
Short-Term	965	757	208
Other	200	0	200
Subtotal	<u>2,590</u>	<u>2,182</u>	<u>408</u>
Commodities & Fees	675	1,193	(518)
Admin./Monitoring	90	852	(762)
Contingency	661	670 ³	(9)
Inflation	101	502	(401)
Total Cost	<u>11,113</u> =====	<u>14,461</u> =====	<u>(3,348)</u> =====

¹ As per the Project's Grant Agreement

² Projected total cost required to fund project inputs as specified in the Project's Grant Agreement. Reflects actual expenditures through 6/30/90 and projected costs from 7/1/90 through project completion on 10/31/93.

³ Estimated in accordance with Handbook 3 guidelines which state that an amount normally not less than 10 percent of the base estimate should be used.

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