

Regional Inspector General for Audit
Dakar, Senegal

**Audit of OAR/Cape Verde's Management of the
Food Crops Research and
Watershed Development Projects
(Project Nos. 655-0011 and 655-0013)**

Report No. 7-655-92-02
October 24, 1991



INSPECTOR
GENERAL

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Watershed Development Projects
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The Office of the A.I.D. Representative in Cape Verde generally followed A.I.D. procedures in procuring eligible commodities and contracting for appropriate technical services. However, it needed to strengthen monitoring, evaluation and reporting of project implementation; improve controls over P.L. 480-generated local currencies; and ensure timely provision and adequate accountability of project commodities.

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

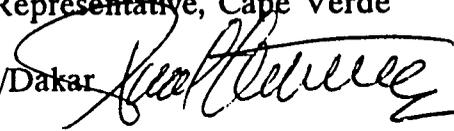
UNITED STATES ADDRESS
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WEST AFRICA

October 24, 1991

MEMORANDUM

TO: Thomas C. Luche, A.I.D. Representative, Cape Verde

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

SUBJECT: Audit of OAR/Cape Verde's Management of the Food
Crops Research and Watershed Development Projects

Enclosed are five copies of the subject audit report. Because your office did not submit a written response to the draft report, we incorporated your views based on our various discussions.

The report makes six recommendations, all of which are resolved and will be closed upon OAR/Cape Verde's completion of the recommended corrective actions. Please advise within 30 days of actions planned or already taken to implement the audit recommendations.

I appreciate the cooperation and courtesy that you and your staff extended during the audit.

EXECUTIVE SUMMARY

Faced with inadequate rainfall and poor soil, the Republic of Cape Verde suffers from chronic food shortages and unemployment. To address these needs, the Office of the A.I.D. Representative in Cape Verde (OAR/Cape Verde) initiated its two largest projects, Food Crops Research and Watershed Development. While simultaneously providing employment to the rural population, the two projects are designed to strengthen the country's capability for agricultural research, soil and water conservation. Under the Food Crops Research project, initiated in 1982, A.I.D. obligated \$4.7 million of which \$3.9 million was expended. Obligation and expenditures for Watershed Development since its authorization in 1983 total \$7.6 million and \$5.9 million, respectively.

The Office of the Regional Inspector General for Audit in Dakar, Senegal audited OAR/Cape Verde's management of the projects in accordance with generally accepted government auditing standards from February 11 to April 19, 1991. The audit's objectives, scope and methodology are described in detail on pages 3, 22 and 23 of this report, respectively.

The audit showed that, for the items tested, OAR/Cape Verde:

- followed A.I.D. procedures in procuring technical assistance and, except for certain oversight deficiencies, followed procedures in ensuring timely and effective contractor performance (see page 4);
- followed A.I.D. procedures in procuring and physically safeguarding eligible commodities, but did not ensure timely provision or adequate accountability of those commodities (see page 5);
- established procedures reasonably assuring that the Government of Cape Verde allocated net sales proceeds of P.L. 480 foodgrains to the Watershed Development project, as required by applicable agreements, except that it did not require the funds be deposited in a special account (see page 9); and
- needed to strengthen its monitoring, evaluating and reporting of project implementation (see page 11).

The report makes six recommendations to improve OAR/Cape Verde's project management. It also addresses the non-responsiveness of A.I.D.'s Regional Economic Development Services Office for West and Central Africa to repeated RIG/A/Dakar requests for information and clarification related to an apparent accounting error (see page 16), evaluates the Mission's internal controls (see page 17) and reports compliance with applicable laws and regulations (see page 20).

A draft of this report was provided to Mission officials for their written comments on July 29, 1991. The A.I.D. Representative requested a 60-day instead of the customary 30-day period to respond because of unexpected absences from post. RIG/A/Dakar concurred to the request. However no response was provided by the Mission, even within the extended period.

In recent discussions, the A.I.D. Representative informed us that significant progress had been made towards implementing the audit recommendations. He also pointed out that the Mission recently underwent a 26 month staffing shortage--a problem he felt was "absolutely central" to a number of the audit findings. We carefully considered this issue both during the audit and while preparing our report. However, in view of the facts that (i) the Mission received 20 months of support from officers on temporary assignment to compensate for the vacant position and (ii) the Mission's related operating procedures were vague or undocumented, we concluded that staff shortages were not the primary cause of the report's findings.

Office of the Inspector General
Office of the Inspector General
October 24, 1991

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INTRODUCTION

Background

An archipelago of fifteen islands on the Atlantic Ocean, Cape Verde is located approximately 400 miles off the coast of Senegal, West Africa. Plagued by inadequate rainfall and poor soil, the country suffers from chronic food shortages and unemployment. A.I.D.'s development strategy recognized the need for increasing food production, preventing soil erosion and improving income and nutrition of Cape Verde's rural population. To address these needs, the Office of the A.I.D. Representative in Cape Verde (OAR/Cape Verde) initiated two major projects--Watershed Development and Food Crops Research. Obligations for the two projects (\$12.3 million) account for 62 percent of OAR/Cape Verde's combined obligation of \$19.7 million for all projects in its portfolio.

The seven-year Watershed Development project (655-0013) was initiated in 1984 to develop and protect the soil and water resources of designated watersheds. A.I.D. obligated \$7.6 million for technical assistance, commodities and training, while the Government of Cape Verde (GOCV) was to contribute sales proceeds of P.L. 480 foodgrains for labor and construction. The project was to construct dams, dikes and reservoirs; plant vegetation; and strengthen GOCV's watershed conservation. As of December 31, 1990 A.I.D. expended \$5.9 million, and financial reports show a GOCV local currency contribution equivalent to \$16 million to the project from P.L. 480 sales proceeds.

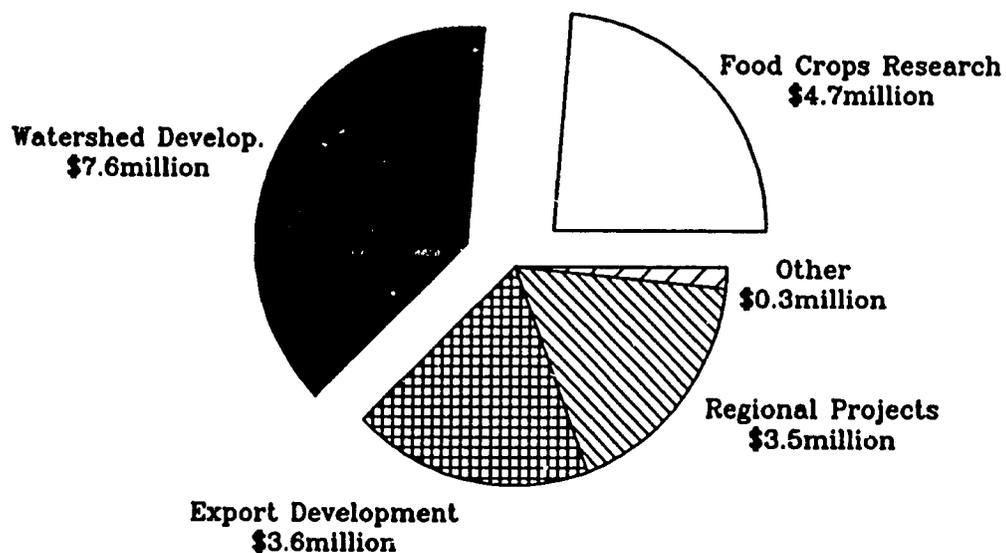
The Food Crops Research project (655-0011) was initiated in 1982 to increase agricultural production in Cape Verde by strengthening GOCV's capacity to conduct research on food crops. A.I.D. earmarked \$4.7 million for technical assistance, training and equipment to the national agricultural research center, and GOCV committed \$2 million of in-kind contributions, primarily personnel and research facilities. As of December 31, 1990 A.I.D. expenditures totaled \$3.9 million.

Technical assistance to the Food Crops Research project was provided by the University of Arizona under a \$2.8 million cost-reimbursement agreement with A.I.D. The contractor was to provide technical assistance and training to GOCV, thereby strengthening its agricultural research capabilities.

For the Watershed Development project, A.I.D. awarded a \$3 million contract to Sheladia Associates, Inc. to assist GOCV in implementing soil, water and food assistance programs.

The GOCV Ministry of Rural Development is responsible for implementing both projects.

Responsibilities of OAR/Cape Verde, a small mission staffed by two U.S. direct-hire employees, include procurement, project monitoring, evaluation and reporting. Accounting and contracting functions are centralized in A.I.D.'s Regional Economic Development Services Office for West and Central Africa (REDSO/WCA) in Abidjan, Ivory Coast.¹ The pie-chart below provides a breakdown of OAR/Cape Verde's project portfolio obligations.



Total Obligations: \$19.7 Million

¹A.I.D. financial data in this report are derived from REDSO/WCA's Mission Accounting and Control System.

Audit Objectives

The Office of the Regional Inspector General for Audit, Dakar, audited the Office of the A.I.D. Representative in Cape Verde's Watershed Development and Food Crops Research projects to answer the following objectives. Did OAR/Cape Verde:

- follow A.I.D. procedures in procuring technical assistance for the projects and ensuring effective performance?
- follow A.I.D. procedures for procurement, use and safeguarding of project commodities?
- establish procedures assuring that the Government of Cape Verde allocated net sales proceeds of P.L. 480 foodgrains to the Watershed Development project, as required by applicable agreements?
- establish a system to monitor, evaluate and report project implementation consistent with standards in A.I.D. Handbook 3?

In answering these objectives, we tested whether OAR/Cape Verde followed applicable internal control procedures and complied with certain provisions of laws, regulations and agreements. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting illegal acts that could significantly affect the audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, OAR/Cape Verde followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work to:

- conclusively determine whether OAR/Cape Verde was following a procedure or complying with a legal requirement;
- identify the cause and effect of the problems; and
- make recommendations to correct the condition and cause of the problems.

Appendix I describes in detail the audit's scope and methodology.

REPORT OF AUDIT FINDINGS

Did OAR/Cape Verde follow A.I.D. procedures in procuring technical assistance for the projects and ensuring effective performance ?

For the items tested, OAR/Cape Verde followed A.I.D. procedures in procuring qualified and eligible technical assistance at a fair price. Except for certain monitoring and reporting deficiencies (covered under the fourth audit objective), the Mission followed procedures in obtaining timely and effective contractor performance.

A.I.D. procured two large technical services contracts, accounting for 94 percent of the amount expended for such services under the Food Crops Research and Watershed Development projects. The first was a \$2.8 million cost reimbursement contract between the Agency and the University of Arizona under the Food Crops Research project to assist GOCV in strengthening its agricultural research capabilities. For Watershed Development, A.I.D. authorized a \$3.0 million contract to Sheladia Associates, Inc. (under Section 8(a) of the Small Business Act) to provide GOCV technical support for its soil, water and food assistance programs. In procuring these services, OAR/Cape Verde and A.I.D. contracting officials complied with relevant sections of A.I.D. Handbooks 1 and 14 by (1) selecting allowable forms of contracts, (2) following competitive procedures, (3) determining that contractors were capable of performing in accordance with contract terms, and (4) expeditiously awarding the contracts.

While the Mission generally obtained timely and effective contractor performance, its monitoring and reporting procedures did not fully comply with Agency standards established in Handbook 3. Need for improvements and our recommendations are included in pages 11 through 16 of this report.

Did OAR/Cape Verde follow A.I.D. procedures for procurement, use and safeguarding of project commodities ?

For the items tested, OAR/Cape Verde followed A.I.D. procedures in procuring eligible commodities and physically safeguarding the items in secure locations. However, it did not ensure adequate control over or timely provision of the commodities.

Out of \$3.9 million obligated for commodities under the Watershed Development and Food Crops Research projects, \$2.6 million was expended and another \$646,000 of procurements were in progress. Consisting primarily of construction materials, laboratory equipment and vehicles, the commodities were generally procured by a U.S.-based purchasing agent and then shipped to Cape Verde. For the items tested, OAR/Cape Verde complied with related provisions of Handbook 1 Supplement B by procuring eligible commodities of authorized source/origin and ensuring secure storage by the GOCV.

However, as discussed below, the Mission did not ensure adequate control by the GOCV over receipt, use and disposition of commodities. It also did not establish procedures ensuring timely provision of planned commodities.

OAR/Cape Verde Needs To Ensure GOCV Accounting Of Project Inventories

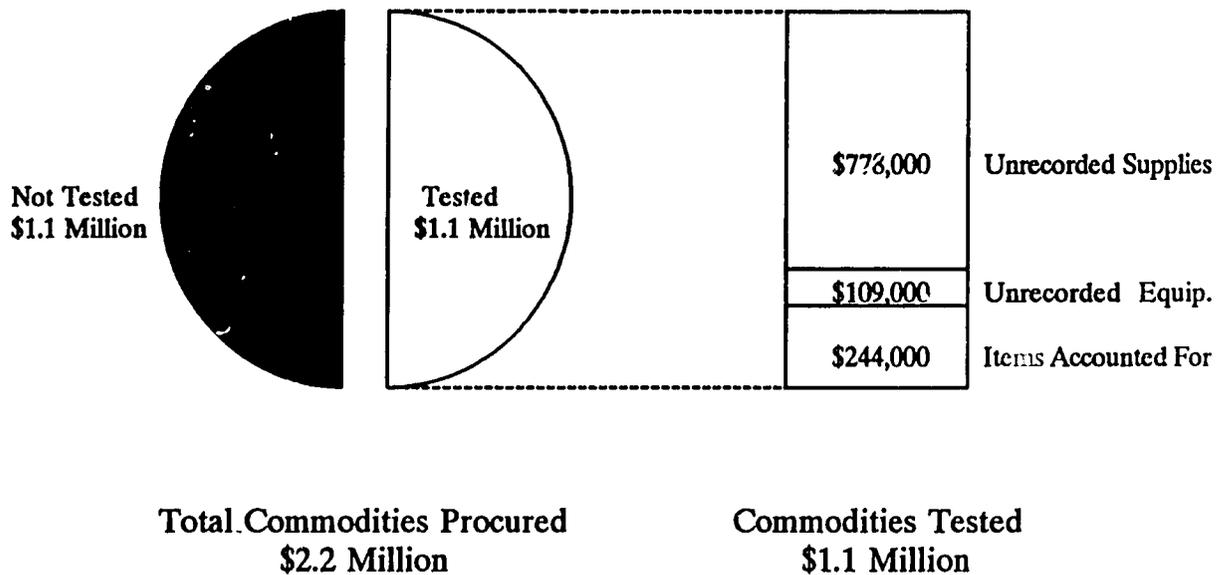
A.I.D. policy requires host countries to account for receipt, use and disposition of project commodities, a requirement not adequately met by GOCV. OAR/Cape Verde took initial steps to ensure GOCV compliance, but did not adequately monitor this aspect of Watershed Development and Food Crops Research implementation. Consequently, project equipment costing \$22,000 were lost or stolen and a substantial portion of the \$2.6 million of project commodities were vulnerable to waste, loss and misuse.

Recommendation No. 1: We recommend that the A.I.D. Representative, Cape Verde, issue implementation letters to the Government of Cape Verde requiring effective inventory management for the Food Crops Research and Watershed Development projects, including maintenance of complete inventory registers, documented requisition of supplies and an accounting of missing project equipment.

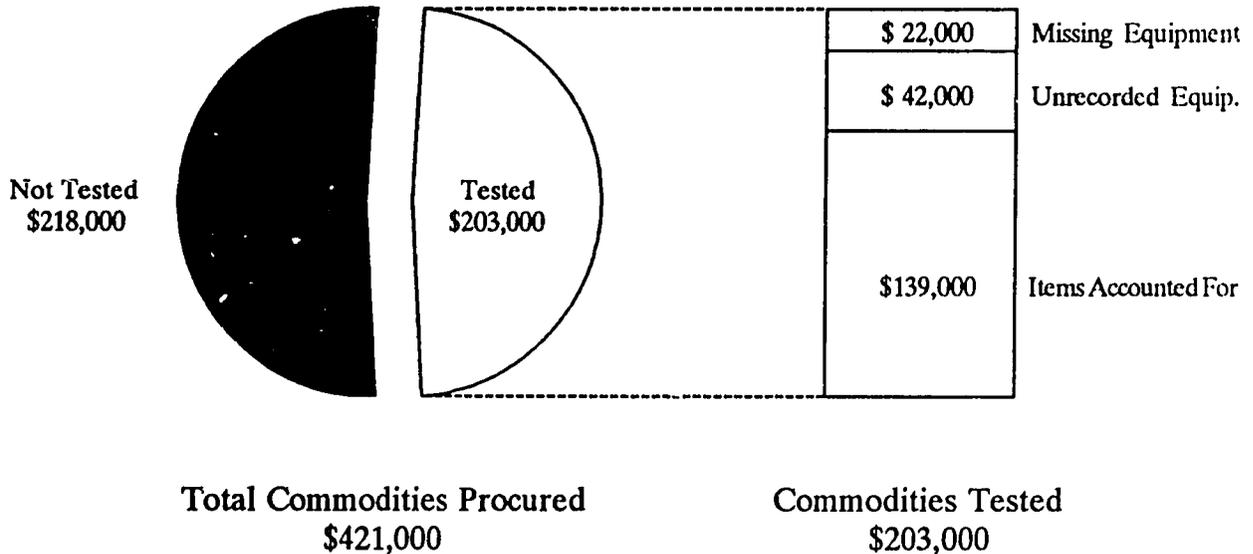
A.I.D. policy in Chapter 10 of Handbook 15 requires host countries to maintain inventory records documenting receipt, use and disposition of A.I.D.-financed commodities. OAR/Cape Verde incorporated the policy into the grant agreements for the Food Crops Research and the Watershed Development projects.

The GOCV, responsible for custody and use of the projects' \$2.6 million of supplies and equipment, did not adequately comply with this requirement. A test of inventory records for the two projects showed undocumented use of supplies, unrecorded and missing equipment. For example, issuance of \$778,000 of Watershed Development construction materials was not documented by approved requisitions--a control deficiency resulting in inadequate assurance that they were used for project purposes. In addition, \$109,000 of Watershed Development equipment were not recorded on inventory registers. For Food Crops Research, A.I.D. procured \$64,000 of laboratory equipment in 1987. When asked about their location, GOCV officials stated that the items never arrived. However, subsequent investigation located \$42,000 of the equipment idle in a project storeroom--still crated and unrecorded on GOCV inventory records. The remaining items costing \$22,000 could not be located. Following is a summary of the tests.

Watershed Development Project



Food Crops Research Project



The above deficiencies occurred because OAR/Cape Verde did not adequately monitor GOCV compliance with recordkeeping provisions of the project grant agreements. The Mission engaged a specialist to assess and upgrade GOCV's inventory controls and trained project personnel in inventory management. However, the system was not properly implemented. As discussed later in this report (see page 12), absence of a well planned monitoring system at OAR/Cape Verde allowed GOCV noncompliance with provisions of project agreements without timely detection.

Consequently, project equipment costing \$22,000 was lost or stolen and a substantial portion of the \$2.6 million of A.I.D.-financed supplies and equipment was at risk of waste, loss and misuse. The matter of the missing equipment has been referred to the Regional Inspector General for Investigations, Dakar, for further action.

OAR/Cape Verde Needs To Reassess Its Commodity Procurement Strategies

A.I.D. policy requires missions to provide the most effective procurement mechanism to ensure timely delivery of project commodities. OAR/Cape Verde's procurement process for Food Crops Research and Watershed Development

projects was characterized by inordinate delays in provision of planned commodities. This occurred because the Mission did not make a prudent and realistic assessment of its procurement capabilities based on its limited staffing. Consequently, project commodities were not ordered in a timely manner and key project activities were delayed.

Recommendation No. 2: We recommend that the A.I.D. Representative, Cape Verde, establish procedures for periodic reassessment of commodity procurement strategies for each project to ensure that planned strategies result in effective and timely provision of project commodities.

A.I.D. Handbook 1 Supplement B holds Mission Directors responsible for developing a procurement mechanism resulting in the most effective implementation of projects.

Both the Watershed Development and the Food Crop Research projects were hampered by inordinate delays in provision of project commodities. For example:

- Laboratory equipment planned for Food Crops Research, valued at \$310,000, was identified in 1987 but not ordered until 1990.
- Spare parts for Watershed Development vehicle repair and maintenance valued at \$336,000, though planned and identified in 1988, have not been ordered to date.
- \$405,000 of construction materials requested in early 1988 were not ordered until 1989.

The above deficiencies, affecting 32 percent of commodities procured under the projects, occurred because OAR/Cape Verde did not expeditiously finalize technical specifications, review bids, secure financing and complete procurement orders. It is evident that the Mission's reliance on its extremely limited staff to handle these activities was not prudent. Effective monitoring, including periodic reassessment of the projects' procurement strategies, would have shown the need to expeditiously adopt an alternate procurement mechanism. By exploring alternative resources, such as contractors, A.I.D./Washington or REDSO/WCA procurement specialists, the above delays could have been prevented.

Consequently, needed commodities did not arrive as planned, hindering implementation of the projects' basic activities. Food Crops Research officials stated that lack of the laboratory equipment impaired research, and delays in ordering construction materials caused Watershed Development to postpone

planned construction of soil and water conservation structures for a year.

Did OAR/Cape Verde establish procedures assuring that the Government of Cape Verde allocated net sales proceeds of P.L. 480 foodgrains to the Watershed Development project, as required by applicable agreements ?

OAR/Cape Verde established a system of controls reasonably assuring that the GOCV complied with applicable agreements by allocating net proceeds of P.L. 480 sales to the Watershed Development project, except that it did not require the GOCV to deposit these funds in a special account.

Under the P.L. 480 Title II, Section 206 program, the U.S. Government donates foodgrains to alleviate Cape Verde's chronic food shortage. The Mission concluded an agreement with the GOCV to use the sales proceeds of P.L. 480 foodgrains (funds owned by the GOCV), net of storage and distribution costs, for local currency expenditures of the Watershed Development project. To monitor this contribution, amounting to the local currency equivalent of \$16 million, OAR/Cape Verde established GOCV reporting requirements, contracted a full-time employee to oversee the program and engaged several short-term specialists to assess related accounting procedures. The Mission thereby identified and resolved instances of delayed provision and unauthorized use of funds.

However, as discussed below, OAR/Cape Verde did not require the GOCV to comply with Agency policy and terms of the bilateral P.L. 480 agreement by depositing the funds in a special account.

GOCV Needs To Establish A Special Account For Local Currencies

To facilitate oversight and accountability, A.I.D. policy as well as the Mission's bilateral agreement with Cape Verde required GOCV to deposit P.L. 480 sales proceeds in a special account. No such account was established because both the Mission and GOCV believed that other alternative controls provided a satisfactory accounting of these funds. Nevertheless, absence of the special account impaired oversight, and \$66,000 equivalent of local currency funds out of \$2.5 million tested were used for unauthorized purposes without timely detection.

Recommendation No. 3: We recommend that the A.I.D. Representative, Cape Verde:

- 3.1** require the Government of Cape Verde to immediately open a special account in a mutually agreed-upon bank and deposit all sales proceeds of U.S. food aid, including the current cash balance from prior sales proceeds;
- 3.2** until the above actions are completed, report this internal control weakness in accordance with the Federal Managers' Financial Integrity Act; and
- 3.3** expeditiously arrange the planned financial audit of the P.L. 480 program in Cape Verde, and require the Government of Cape Verde to reimburse the special account for unauthorized use of funds.

A.I.D.'s Supplemental Guidance on Policy Determination No. 5 required special accounts to be established without exception for currencies generated under P.L. 480 Title II, Section 206 programs. To conform with this policy, the 1990 P.L. 480 agreement between the United States and Cape Verde required that all sales proceeds be deposited in a special account within the GOCV's National Development Fund (NDF).

Notwithstanding the above agreement, the GOCV did not establish the required special account. Instead, it commingled P.L. 480-generated local currencies with contributions from other donors in a single account at the NDF.

Mission officials believed that the existing system provided adequate oversight and ensured timely flow of funds, an opinion shared by several independent assessments. The GOCV claimed that NDF maintained separate accounting records showing receipts and disbursements by donor, and the bilateral P.L. 480 agreement required the NDF to periodically report receipts, disbursements and the balance of P.L. 480 funds. However, the system was not functioning as intended--NDF did not maintain records of receipts, disbursements and balance of funds at any given time and therefore did not periodically report the status of these funds. What was purported to be NDF's separate accounting for P.L. 480 was in fact a series of disbursement ledgers maintained by another GOCV entity--which had not been updated since 1989--and an NDF logbook of P.L. 480 shipments received. These records neither constituted the required special account nor provided an adequate and timely accounting for the P.L. 480 sales proceeds.

While the Mission planned a financial audit of the P.L. 480 program and maintained memorandum records of local currency transactions, thereby monitoring generation and use of those funds, failure to open a special account impaired oversight. For example, guidelines in Chapter 5 of A.I.D. Handbook 19 call for missions to review and reconcile bank statements of accounts maintained under P.L. 480 Title II programs.

Our attempt to reconcile the GOCV's various disbursement ledgers with 1989 project expenditures showed that the local currency equivalent of \$66,000 of the \$2.5 million disbursed were used for unauthorized purposes (apparently other donors' projects). Until the required special account is established, allowing timely Mission review and reconciliation of the account's financial status, these funds will continue to be vulnerable to such unauthorized use without timely detection.

Did OAR/Cape Verde establish a system to monitor, evaluate and report project implementation consistent with standards in A.I.D. Handbook 3 ?

OAR/Cape Verde's monitoring, evaluation and reporting system complied with standards established in A.I.D. Handbook 3, except that it did not provide adequate monitoring of project inputs or ensure compliance with Agency evaluation and reporting procedures.

Handbook 3, the Agency's basic guidance on project assistance, requires missions to effectively monitor, evaluate and report project implementation. It also provides guidelines for carrying out these responsibilities. For the Watershed Development and Food Crops Research projects, OAR/Cape Verde's system incorporated most of the Handbook procedures, including:

- appointing project officers;
- gathering information through meetings, on-site inspections, host country reports and special assessments;
- sponsoring periodic project evaluations;
- comparing planned versus actual results; and
- issuing required implementation and strategy reports.

As a result, OAR/Cape Verde's system substantially complied with standards established in Handbook 3.

However, as discussed below, the Mission's monitoring of project inputs needed strengthening, and the system did not reasonably assure compliance with Agency reporting requirements and evaluation procedures.

OAR/Cape Verde Needs To Strengthen Its Monitoring Of Project Inputs

A.I.D. Handbook 3 requires missions to adequately monitor projects by gathering timely information on inputs, outputs and implementing actions critical to a project's success. OAR/Cape Verde did not fully accomplish this responsibility, largely because its monitoring procedures were incomplete. As a result, arrival of project commodities was delayed and GOCV's non-compliance with certain provisions of project agreements was not corrected, exposing project resources to waste, loss and misuse.

Recommendation No. 4: We recommend that the A.I.D. Representative, Cape Verde:

- 4.1 issue a Mission Order, as required by A.I.D. Handbook 3, defining the monitoring responsibilities of cognizant Mission officials, including systematic monitoring of project inputs and Government of Cape Verde compliance with project agreements; and**
- 4.2 until the above Mission Order is issued and implemented, report this internal control weakness in accordance with the Federal Managers' Financial Integrity Act.**

Chapter 11 of A.I.D. Handbook 3 requires missions to monitor projects to ensure that A.I.D. funds are disbursed in accordance with statutory requirements and A.I.D.-financed goods and services are used effectively to produce intended benefits. Among other things, sound monitoring includes timely gathering of information on inputs, outputs and implementing actions critical to project success. The purpose of monitoring is not merely to observe and record but also to resolve problems in a timely manner. To facilitate the monitoring process, the aforementioned Handbook guidance requires missions to document their monitoring systems, clearly allocating responsibilities.

OAR/Cape Verde's monitoring of Food Crops Research, Watershed Development and its P.L. 480 funding was incomplete. As discussed earlier in this report, it did not ensure timely provision of project commodities, host-country compliance with commodity and local currency provisions of project agreements.

Absence of a well defined monitoring system is the principal cause of this deficiency. The Mission neither documented its monitoring system nor clearly allocated responsibilities among its personnel. For example, monitoring of the Food Crops Research and Watershed Development projects was concurrently assigned to several Mission employees, including temporary duty personnel, but none of these officials was formally required to periodically assess GOCV's compliance with agreements.

The A.I.D. Representative in Cape Verde pointed out that one of the Mission's two U.S. direct hire positions was recently vacant for 26 months--a problem he considered "absolutely central" to monitoring deficiencies noted in the report. He also stated that A.I.D. is responsible for providing its field offices with adequate staffing to assure the degree of accountability and control required by law and Agency policy, and he concluded that OAR/Cape Verde needed a minimum of three U.S. direct hire employees to accomplish this. Despite staffing handicaps, the A.I.D. Representative considered both projects well on their way to meeting or exceeding planned outputs.

While noting the above comments, we also found that OAR/Cape Verde received 20 months of support from officers on temporary assignment to compensate for the vacant position in Cape Verde. Furthermore, the A.I.D. Representative, in his 1990 Internal Control Assessment, reported that the Mission was adequately staffed with two officers to monitor and evaluate program activities. In our opinion, had the Mission defined its monitoring system, instituted comprehensive controls to assure its implementation, and allocated responsibilities among its personnel, be they temporary or permanent staff, the aforementioned deficiencies in monitoring project inputs would have been detected and addressed in a timely manner.

OAR/Cape Verde's Evaluation Procedures Are Inadequate

Mission Directors are responsible for compliance with Agency evaluation requirements. OAR/Cape Verde did not follow certain requirements because it did not formalize its evaluation system nor assign specific responsibilities to its personnel. As a result, the effectiveness of evaluations was considerably diminished.

Recommendation No. 5: We recommend that the A.I.D. Representative, Cape Verde:

- 5.1 issue a Mission Order, as required by A.I.D. Handbook 3, defining the evaluation responsibilities of cognizant Mission officials, including follow-up of evaluation recommendations and submission of evaluation summaries; and**
- 5.2 until the above Mission Order is issued and implemented, report this internal control weakness in accordance with the Federal Managers' Financial Integrity Act.**

Primary purpose of a project evaluation is to inform management on key issues, such as the project's effectiveness, sustainability and impact. Chapter 12 of A.I.D. Handbook 3 requires Mission Directors to ensure that evaluations are completed in accordance with prescribed procedures, including follow-up on evaluation recommendations, participation of host-country officials and preparation of summary reports incorporating lessons learned and actions required. Such reports should also designate officials and establish time frames for implementing recommended actions.

OAR/Cape Verde sponsored two mid-term and one final evaluation for Watershed Development and Food Crops Research at an expenditure of \$137,000. However, the Mission did not prepare evaluation summaries for two of the three evaluations and did not implement recommended actions more than a year after the final evaluation was completed. Moreover, final evaluation findings and recommendations were not shared with GOCV officials responsible for implementing the projects.

These deficiencies occurred because OAR/Cape Verde did not develop, document and institute an effective evaluation system which would reasonably assure that required procedures were implemented. The Mission did not establish its evaluation system in a Mission Order or assign related responsibilities in job descriptions.

Consequently, OAR/Cape Verde's failure to take appropriate follow-up action--such as preparing evaluation summaries, addressing recommendations and sharing findings and recommendations with cognizant GOCV officials--considerably diminished the effectiveness of the evaluation process.

OAR/Cape Verde Needs To Strengthen Its Reporting Procedures

Project officers are responsible for ensuring that project reporting requirements are met. This responsibility was not effectively fulfilled for the Food Crops Research and Watershed Development projects, primarily because the Mission had not established procedures to reasonably assure its accomplishment. As a result, a number of required reports were not prepared, reviewed and acted upon, exposing the projects to potential and unreported implementation problems.

Recommendation No. 6: We recommend that the A.I.D. Representative, Cape Verde, institute procedures ensuring the timely preparation, review and follow-up of required reports and workplans.

A.I.D. Handbook 3, Chapter 11 requires project officers to ensure that required reports and workplans are prepared, reviewed and, as necessary, acted upon. Such reports include: site visit, host-country and contractor progress reports and workplans for technical assistance contracts.

For the Food Crops Research and Watershed Development projects, OAR/Cape Verde did not ensure adequate reporting. The technical services contractor under Food Crops Research did not prepare required workplans during the early years of implementation and, for Watershed Development, the principal technical services contractor did not submit required quarterly workplans and progress reports for the final two-and-a-half years of the contract. Moreover, site visit reports were generally not prepared. Of the three Mission officials monitoring Watershed Development, only one prepared reports on site visits. No such reports could be located on the Food Crops Research project.

Absence of procedures ensuring preparation, review and follow-up of reports is the principal cause of the above deficiencies. The A.I.D. Representative pointed out that oral briefings were provided by cognizant officials at weekly staff meetings and meetings were held periodically with the technical assistance personnel to review progress--a process he considered adequate for a small mission like OAR/Cape Verde.

Noncompliance with reporting requirements exposes projects to risk of potential problems and perpetuates existing problems by not reporting them. For example, an evaluation of the Food Crops Research project concluded that the absence of workplans during the early years of the project caused confusion among project officials and impaired implementation. By not documenting its site visits

or requiring contractors' progress reports and workplans, the Mission created a serious information gap on the extent of past monitoring, problem areas and issues requiring attention. While recognizing that oral briefings may be an effective medium of communication in a small mission like OAR/Cape Verde, its institutional memory with only two U.S. direct-hire employees is, at best, tenuous. Absence of documentation such as written reports seriously impairs the capabilities of newly arrived project officers, evaluators and other temporary duty personnel to carry out their responsibilities.

Issues Needing Further Study

Methodology for the second audit objective included examination of various commodity procurement records maintained by the West Africa Accounting Center at A.I.D.'s Regional Economic Development Services Office in Abidjan, Ivory Coast (REDSO/WAAC), which is the official accounting station for OAR/Cape Verde. During this examination, the auditors noted a series of eight misposted transactions totalling \$85,000 within a \$378,000 earmark, including costs apparently incurred under other projects.

RIG/A/Dakar reported the apparent mispostings to REDSO/WAAC management in a memorandum dated March 22, 1991, which included several queries on REDSO/WAAC's internal control structure related to the above transactions and requested a written response. REDSO/WAAC did not provide the requested information despite repeated follow-ups by RIG/A/Dakar over a five-month period on April 10, May 24, June 17 and August 21, 1991. Finally, in a meeting at the REDSO office in Abidjan on August 23, 1991 the RIG/A/Dakar raised this issue with the REDSO/WAAC Controller. However, a response still has not been provided.

We are concerned whether systemic deficiencies in the design or operation of REDSO/WAAC's internal controls resulted in these accounting errors. Furthermore, because REDSO/WAAC is the official accounting station for 12 A.I.D. missions in West and Central Africa, RIG/A/Dakar will propose scheduling a comprehensive functional audit of its accounting and control functions in our next annual plan.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of OAR/Cape Verde's internal controls related to each audit objective.

Scope of Our Internal Control Assessment

We performed our audit in accordance with generally accepted government auditing standards which require that we (1) assess the applicable internal controls when necessary to satisfy the audit objectives and (2) report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit. We limited our assessment to those controls applicable to the audit's objectives and not to provide assurance on OAR/Cape Verde's overall internal control structure. We classified significant internal control policies and procedures applicable to each audit objective by category. For each category, we obtained an understanding of the design of relevant policies and procedures, determined whether they are in operation, and then assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act and the Office of Management and Budget implementing policies, A.I.D. management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by Agencies in establishing and maintaining internal controls. The objectives of internal controls for Federal foreign assistance are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss and misuse; and reliable data is obtained, maintained and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for Audit Objective One

The first audit objective was to determine whether OAR/Cape Verde followed A.I.D. procedures in procuring technical services for the projects and in ensuring effective performance. In answering this objective, we considered applicable internal control policies and procedures in A.I.D. Handbooks 1, 3 and 14 and, for the purpose of this report, categorized them as follows: the procurement planning, contractor selection/contract award, and contract monitoring processes. We reviewed OAR/Cape Verde's internal controls relating to these processes, and our tests showed that they were logically designed and consistently applied except the Mission did not establish procedures reasonably assuring timely submission of required reports and workplans.

Conclusions for Audit Objective Two

This audit objective was to determine whether OAR/Cape Verde followed A.I.D. procedures for procurement, use and safeguarding project commodities. In answering this objective, we considered applicable internal control policies and procedures cited in A.I.D. Handbooks 1, 3 and 15 and, for the purposes of this report, categorized them as follows: the procurement planning process, the ordering process, and the control of receipt, use and disposition process. We then reviewed OAR/Cape Verde's controls relating to these processes, and our tests showed that controls were logically designed and consistently applied, except that OAR/Cape Verde did not:

- periodically reassess the effectiveness of its procurement mechanisms to determine their continued effectiveness; and
- establish procedures for monitoring GOCV's compliance with recordkeeping requirements of project grant agreements.

The Mission did not disclose the above monitoring weaknesses in its 1990 Internal Control Assessment.

Conclusions for Audit Objective Three

This audit objective was to determine whether OAR/Cape Verde established procedures reasonably assuring that GOCV contributed net sales proceeds of P.L. 480 foodgrains to the Watershed Development project, as required by applicable agreements. To accomplish this, we considered related internal control policies in A.I.D. Handbooks 1, 3, 9 and 19 and, for the purpose of this report, categorized them as the disbursement and reporting cycles. We reviewed

OAR/Cape Verde's internal controls relating to these cycles, and our tests showed that the controls were logically designed and consistently applied except for the Mission's failure to ensure timely reporting of the status of funds through establishment of a special account for the P.L. 480 sales proceeds. This condition was not reported in the Mission's 1990 Internal Control Assessment.

Conclusions for Audit Objective Four

The fourth audit objective was to determine whether OAR/Cape Verde established and maintained a project monitoring, evaluation and reporting system consistent with standards in A.I.D. Handbook 3. In answering this objective, we considered applicable internal controls policies and procedures cited in Handbook 3 and, for the purposes of this report, categorized them as follows: the project monitoring, evaluation and reporting processes. We reviewed OAR/Cape Verde's internal controls relating to these processes, and our tests showed that they were not well designed and, therefore, not fully effective. The Mission did not establish its project monitoring, evaluation and reporting system in a Mission Order, and thereby did not ensure adequate allocation of responsibilities among Mission personnel. Notwithstanding the Mission's conclusion in its 1990 Internal Control Assessment that "the responsibility for monitoring and evaluating all project/program activities has been implemented and maintained" since January 1990, absence of documented procedures resulted in unsatisfactory control of these processes.

REPORT ON COMPLIANCE

This section summarizes our conclusions on OAR/Cape Verde's compliance with applicable laws, agreements and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we (1) assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse and illegal acts that could significantly affect the audit objectives) and (2) report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested OAR/Cape Verde's and A.I.D. contracting officials' compliance with provisions of AIDAR 715.613-70, Section 636(i) of the Foreign Assistance Act and binding policy in Chapters 4 and 5 of A.I.D. Handbook 1, Supplement B. Our work also included a review of the Mission's compliance with terms of P.L. 480 transfer authorizations, project grant agreements and related technical services contracts insofar as they affect our audit objectives. Our objective was not to provide an opinion on overall compliance with such provisions.

General Background on Compliance

Noncompliance is failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grant and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of

impartial and ethical behavior. Compliance with provisions of AIDAR 715.613-70, Section 636(i) of the Foreign Assistance Act and Chapters 4 and 5 of Handbook 1, Supplement B is the responsibility of A.I.D. management. Compliance with terms of P.L. 480 transfer authorizations, project grant agreements and technical assistance contracts are the overall responsibility of the parties to the accords.

Conclusions on Compliance

For the items tested, A.I.D. complied with provisions of AIDAR 715.613-70, Section 636(i) of the Foreign Assistance Act and Chapters 4 and 5 of Handbook 1, Supplement B. Furthermore, for the items tested, A.I.D. complied with provisions of P.L. 480 transfer authorizations, project grant agreements and technical services contracts.

SCOPE AND METHODOLOGY

Scope

The Office of the Regional Inspector General for Audit, Dakar, audited OAR/Cape Verde's management of the Watershed Development and Food Crops Research projects (Project Nos. 655-0013 and 655-0011), under which A.I.D. expended \$9.8 million, in accordance with generally accepted government auditing standards. These projects comprised 62 percent of the Mission's total project obligations of \$19.7 million. The audit covered systems and procedures relating to procurement and use of project commodities (\$1.3 million tested of \$2.6 million expended) and procurement of technical services (\$5.6 million tested of \$6.1 million obligated), as well as Mission monitoring of host-country local currency contributions and its overall monitoring, evaluation and reporting of the projects, from inception of Food Crops Research on August 31, 1982 and Watershed Development on June 15, 1984 through March 31, 1991. The audit was conducted from February 11 to April 19, 1991 at the A.I.D. mission, the offices of the GOCV Ministry of Finance and selected project sites in Cape Verde, as well as at A.I.D.'s Regional Economic Development Services Office for West and Central Africa (REDSO/WCA) in Abidjan, Ivory Coast.

The audit did not assess:

- GOCV's receipt, distribution and sale of P.L. 480 foodgrains; and
- reliability of project financial data generated by REDSO/WCA's Mission Accounting and Control System (MACS).

We obtained documentary and testimonial evidence from OAR/Cape Verde, GOCV and contractors; assessed internal controls related to each audit objective; considered a prior audit of OAR/Cape Verde; and verified evidence through examination of supporting documentation and physical inspection of project assets and activities. Following is a discussion of our methodology for answering each audit objective.

Methodology

Audit Objective One

To accomplish the first audit objective, we considered related criteria in A.I.D. Handbooks 1, 3 and 14, and then reviewed official contract files to determine whether (1) allowable forms of contracts were selected, (2) proper competitive procedures were followed in selecting contractors, (3) contracts provided reasonable assurances that the necessary services would be provided on time and at a fair price, (4) contracts were expeditiously awarded and (5) contractors were capable of performing according to the terms of the contracts. We determined whether contractors performed in accordance with statements of work by interviewing project officials, inspecting implementation and reviewing evaluation and contractor reports. Our work included assessment of related internal controls and examination of procurement plans; project agreements, contracts, advertisements, statements of work, selection panel results, cost proposals, biographic data of contractor personnel, workplans, administrative approval of vouchers, financial and implementation reports. Our tests covered the principal technical services contract for each project, accounting for 94 percent of the projects' disbursements for such services.

Audit Objective Two

For the second audit objective, we considered criteria in A.I.D. Handbooks 1, 3, 15 and Section 636(i) of the Foreign Assistance Act. We then determined, on a sample basis, whether project commodities were unrestricted, of authorized source and origin, provided when needed, securely stored and adequately managed. To accomplish this, we assessed related internal controls and examined procurement plans, MACS reports, PIO/C's, invoices, receiving, requisition and inventory documents. We also interviewed project and Mission officials and inspected equipment and supplies. We drew our samples from MACS-generated disbursement records, ranking procurements for each project by dollar value and selecting transactions in that order. Our coverage of Food Crops Research and Watershed Development commodity procurements totalled 48 and 51 percent, respectively.

Audit Objective Three

To accomplish the third objective, we considered related criteria in A.I.D. Handbooks 1, 3, 9 and 19 and assessed the Mission's procedures for ensuring the GOCV used net proceeds of P.L. 480 sales for project purposes. Our work included assessing controls over the flow of funds from GOCV's National Development Fund to the Watershed Development project, reviewing the Mission's monitoring procedures, and testing of project disbursement procedures. We also reconciled GOCV's Ministry of Finance accounting records with project disbursements for 1989 (the most recent year for which the Ministry could provide accounting records), considered past evaluations and assessments, interviewed Mission, GOCV and project officials.

Audit Objective Four

To accomplish the fourth audit objective, we considered related criteria in A.I.D. Handbook 3, assessed internal controls and determined whether the Mission's monitoring, evaluation and reporting system was consistent with Handbook standards. Our work included examination of job descriptions, implementation letters, contracts, grant agreements, project papers, evaluation, implementation site visit and strategy reports. In addition, we interviewed Mission, GOCV and project officials and inspected project locations. Audit procedures in the preceding three objectives were also applicable to this objective.

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