OFFICE OF INSPECTOR GENERAL

AUDIT OF THE AFRICAN DEVELOPMENT FOUNDATION/ GHANA PROJECT ACTIVITIES

AUDIT REPORT NO. 7-ADF-08-007-P
SEPTEMBER 17, 2008

DAKAR, SENEGAL

September 17, 2008

Lloyd Pierson
President
African Development Foundation
1400 I Street, NW
Washington, DC 20005-2248

SUBJECT: Audit of the African Development Foundation/Ghana Project Activities (Report No. 7-ADF-08-007-P)

This letter transmits our final report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report and we have included ADF's comments in their entirely in appendix II of this report.

The report includes 18 recommendations for your action. Based on your comments and the documentation provided, we consider management decisions have been reached on all recommendations except for recommendation nos. 5, 9 and 17. A management decision for recommendations nos. 5, 9 and 17 can be recorded when ADF has developed a firm plan of action, with target dates, for implementing the recommendations. Determination of final action for the report recommendations will be made by the Foundation's audit committee and we ask that we be notified upon completion of the proposed corrective actions.

I appreciate the cooperation and courtesy extended to my staff throughout the audit.

Sincerely,

Dennis Bryant /s/
Regional Inspector General/Dakar

Cc: Board of Directors, African Development Foundation

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SUMMARY OF RESULTS

The African Development Foundation (ADF) is a U.S. Government corporation established by Congress in 1980 with a mandate to promote the participation of Africans in the economic and social development of their countries. The principal aim of ADF's grants is to enable the empowerment of the poor in Africa. ADF does not develop projects itself. Rather, ADF provides financial support to African enterprises and community-based organizations through grants of $250,000 or less that generate income and employment. ADF/Ghana was comprised of a regional office, a country representative office and a partner organization. (See page 2.)

The Regional Inspector General/Dakar performed this audit to determine whether ADF/Ghana implemented its activities in accordance with ADF policies and selected U.S. Government regulations. (See page 3.)

The USAID Office of Inspector General (OIG) auditors found that in many instances ADF/Ghana had not implemented its activities in accordance with ADF policies and U.S. government regulations. (See page 4.) Specifically, ADF/Ghana charged ADF for ineligible and unsupported questioned costs of $1,112,947, 16 percent of total disbursements during the four year period April 2004 to March 2008, (see appendix III page 40) and did not submit final certificates of indirect costs. (See page 6.) Financial audits conducted by a local accounting firm did not comply with appropriate standards and the audit firm was not on the OIG list of eligible firms. (See page 8.) ADF/Ghana did not establish a monitoring and evaluation system (see page 10) and did not verify the accuracy and completeness of reported information as required by ADF policy. (See page 12.)

Also, ADF did not ensure that grantees used ADF funds in accordance with the terms of their agreements which led to the misuse of funds and indications of fraud. (See page 14.) Finally, ADF did not ensure that its grantees established financial management systems (see page 17) and contributed to the ADF community development trust fund. (See page 18.)

The report contains 18 recommendations that will assist ADF/Ghana in improving its compliance with ADF policies and U.S. regulations. We believe that ADF’s comments and planned actions are responsive to the report recommendations. We consider that management decisions have been reached on all recommendations except for recommendation nos. 5, 9 and 17. Our evaluation of management comments is provided on page 21. ADF’s comments in their entirety are included in appendix II.

BACKGROUND

The African Development Foundation (ADF) is a U.S. Government corporation established by Congress in 1980 with a mandate to promote the participation of Africans in the economic and social development of their countries. The principal aim of ADF's grants is to enable the empowerment of the poor in Africa. ADF's strategic goals and objectives are threefold:

- Invest in businesses and social enterprises that create jobs, generate income, and improve the life of the poor.
- Expand institutional and financial capacities that support businesses and social enterprise growth.
- Broaden ADF's resource base and provide efficient and effective services.

ADF does not implement projects itself. Rather, ADF delivers direct financial support to African enterprises and community-based organizations, by providing grants of $250,000 or less that generate income and employment. Such grants are designed to increase the flow of investment capital to the poor and to:

- Finance sustainable poverty alleviating initiatives that are conceived, designed, and implemented by Africans and which engender opportunities for community development.
- Stimulate and expand the participation of Africa's poor in the development of their countries.
- Build sustainable African institutions that foster grassroots development.

In November 1999, Public Law 106-113 amended the responsibilities of the USAID/Office of Inspector General (OIG) under Section 8A (a) of the OIG Act of 1978, to include audit responsibility for ADF.

ADF, with headquarters in Washington, DC, currently has active programs in 18 African countries including Ghana. ADF funds its overseas offices through contracts with its country representatives and cooperative agreements signed with partner organizations.

The ADF/Ghana program, established in 1984, managed a portfolio of 39 investment projects as of April 2008, (15 organizational assistance grants and 24 development assistance projects) across a range of industries and economic sectors and focused on export-oriented enterprise development. ADF field activities are managed and monitored by its overseas offices. During the period covered by the audit (from April 2004 to March 2008), ADF/Ghana was comprised of the following entities:

- A partner organization, which has had five cooperative agreements with ADF since 2001 and was responsible for providing technical assistance, monitoring ADF/Ghana projects and developing new projects. The partner had seven employees during the audit period, including 3 professional staff plus 11 contractors.

- The ADF/Ghana country representative office has been under contract with ADF since 2003. The country representative office was responsible for guiding and supporting

ADF’s work in Ghana, ensuring proper implementation of ADF-funded activities, and coordinating with other donors and the Government of Ghana. The country representative office had seven employees during the audit period including four professional staff.

- A regional office headed by an ADF vice president, chief executive officer, who acted as the regional program coordinator and was assisted by U.S. regional investment advisors. The regional office was established in February 2006 and discontinued in March 2008. The regional office had complete and full responsibility, authority and accountability for providing and ensuring judicious oversight and management of all ADF enterprise investments, country programs and operations, in Guinea, Ghana and Nigeria. The regional office had 17 people including 4 regional investment advisors.

During the period April 1, 2004 to March 31, 2008, ADF obligated $7.5 million and disbursed $7.1 million to ADF/Ghana in support of its activities.

AUDIT OBJECTIVE

This audit conducted by the Regional Inspector General/Dakar (RIG/Dakar) will support the Office of Inspector General in responding to Congressional interest concerning ADF’s operations in Ghana. This audit, focusing on compliance with ADF policies and selected U.S. Government regulations, was designed to answer the following question:

- Did ADF/Ghana implement its activities in accordance with ADF policies and selected U.S. Government regulations?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

In many instances, activities of ADF/Ghana were not implemented in accordance with ADF policies. In addition, several policies of ADF and selected U.S. Government regulations were not adhered to by the partner organization, the country representative office and the grantees. The following sections of this audit report discuss the lack of compliance with ADF policies and associated questioned costs of $1,112,947, and identify opportunities to improve program oversight and accountability.

ADF/Ghana had three tiers of management that included the partner organization, the country representative office and the regional coordinating office. The first five findings presented below concern ADF/Ghana's lack of compliance in fulfilling its management role. The last three findings, starting on page 14, concern ADF/Ghana's grantees.

Ineligible and Unsupported Costs Charged to ADF

Summary: ADF/Ghana's management did not comply with ADF policies and selected U.S. Government regulations. Based on a review of expenditure vouchers and financial records, the audit team found that several expenditures were not allowable or were unsupported. These instances of noncompliance were due to a weak control environment and a lack of oversight by the ADF/Ghana regional office and ADF/Washington. As a result, questioned costs totaling $329,936 were charged to ADF. This type of situation can also create vulnerabilities that potentially lead to fraud, waste and abuse.

This section discusses the noncompliance of the ADF/Ghana management, mainly the partner organization, with U.S. Government regulations and ADF guidance. The partner's agreements state that ADF shall require the recipient to refund any amount that the recipient did not spend in accordance with the terms of the agreement. According to the terms of the agreements, actual expenditures for any budget line item cannot exceed budgeted expenditures by more than 15 percent without the prior approval of ADF/Washington. Also, the Office of Management and Budget Circular A-122 provides principles to be applied in establishing the allowability of certain costs. Through a review of expenditure vouchers[1] and supporting documentation, the audit team identified $202,100 in ineligible costs and $127,836 in unsupported questioned costs as shown in appendix III.

In addition, the audit team identified compliance deficiencies that could not be quantified. For example, fuel costs charged for 87 of 97 trips to Kumasi and Sunyani regions from November 2006 to March 2008 could not be justified in view of the distance between the partner's office in Accra, Ghana, and the grantee locations. A total of 32,759 kilometers were reportedly driven, while 23,020 kilometers should have been driven based on the

[1] The OIG auditors reviewed all expenditure vouchers of the partner organization for the period April 2004 to March 2008. However, the auditors did not investigate all costs to determine their allowability because of time constraints and materiality.

recorded distances computed by the USAID Office of Inspector General (OIG) auditors who traveled to the same locations. We found that some capital assets funded by ADF were not used for program-related purposes and hence program funds were wasted. For example, ADF/Ghana purchased two satellite dishes for $125,628 in 2006 that were never correctly installed or used.

A weak control environment and a lack oversight by the ADF/Ghana regional office and ADF/Washington were responsible for the above mentioned deficiencies and the resulting questioned costs. Since 2001, ADF/Washington renewed its cooperative agreement with the partner organization without following a competitive bidding process as required by U.S. regulations. The audit found that the partner organization's and the country representative's staff members were not completing timesheets and no payroll records existed to ensure that staff members were paid based on attendance. There was no adequate accounting system to track expenses by budget line and to produce trend analyses and no procedures were in place to verify and validate expenditures. Almost 40 percent of travel advances were not liquidated by actual travel reports. The vehicle logs were not consistently completed and specific locations visited were not listed and the log book was not signed by the user. No bank reconciliations were performed on the partner organization's own business bank account, and even though bank reconciliations were done for the ADF account, they were not reviewed or approved by the partner organization's director. Also, no statements were available on the provident funds[2] for the last four years. There were no minutes of the board meetings even though expenses were incurred for those meetings.

Audits of the partner organization were performed, however, the audits failed to report internal control and compliance deficiencies. (See finding on page 8.) Also, an audit by a local accounting firm of the country representative office was conducted for the period October 2005 to December 2006. The local accounting firm found that several expenditures were not supported by payment vouchers, no payroll taxes were paid (contrary to ADF policy) and the vehicle log book was not reviewed and approved by a responsible officer.

As a result of a weak control environment, $329,936 of ADF funds may have been misspent and additional funds are vulnerable to fraud, waste and abuse.

Recommendation No. 1: We recommend that the African Development Foundation determine the allowability of $202,100 in ineligible questioned costs and $127,836 in unsupported questioned costs and recover from the partner organization the amounts determined to be unallowable.

Recommendation No. 2: We recommend that the African Development Foundation establish a plan to correct the internal control and compliance deficiencies discussed in the report. This will include at a minimum the use of monthly timesheets, completion and review of vehicle log books, approval of bank reconciliations, documentation of board of directors' meetings and liquidation of travel advances.

[2] A provident fund pays benefits to company employees who are fund members upon the termination of their employment.

Recommendation No. 3: We recommend that the African Development Foundation issue a request for proposals (a) to conduct a financial audit of its Ghana country representative office for the calendar year 2007 to assess whether ADF funds were used in compliance with ADF policies, and (b) to select a partner based on a competitive process to comply with U.S. regulations.

Recommendation No. 4: We recommend that the African Development Foundation take appropriate measures to sell or replace unused assets.

Final Certification of Indirect Cost Rates Not Completed

Summary: According to ADF policy, ADF/Ghana's partner organization, should have an annual audit of its indirect cost rates and submit a final certification of the indirect cost rates within 9 months of the end of its fiscal year. However, the audit found that the partner organization did not conduct an audit of its indirect cost rates and did not submit a certificate of final indirect cost rates. This noncompliance with ADF guidance was due to a lack of oversight by the ADF/Ghana regional program coordinator and ADF/Washington. As a result, the partner organization overcharged ADF $182,866.

The Office of Management and Budget (OMB) Circular A-122 and Contract Information Bulletin (CIB) 97-9 provide specific guidance on the computation and determination of final indirect cost rates for non-profit organizations and non-U.S. nongovernmental organizations, respectively. As per ADF guidance, the partner organization is required to follow the standards prescribed by OMB Circular A-122 and the agreement will be in the form of a Negotiated Indirect Cost Rate Agreement (NICRA). ADF guidance also required an audit of indirect costs and stated that the purpose of the audit was to ascertain the accuracy and completeness of the partner organization records and reporting of direct and indirect costs and provide an opinion on the provisional rate.

The partner computed the overhead indirect costs using the fringe benefits provisional rate rather than actual fringe benefit costs which caused indirect cost rates to be overstated. Also, the partner did not report to ADF revenues and expenses related to three outside consultancies which should have been included in the computation of indirect costs which were not adequately supported. In addition, during the period of October 2005 to September 2006, the partner organization double-charged ADF $117,075 for its indirect costs (charging ADF not only for its actual costs incurred but also its provisional indirect costs) and invested ADF funds in an investment account. However, by the end of our fieldwork, the partner organization had transferred the entire overcharged amount and interest earned to ADF. Therefore, we are not questioning this amount.

The cooperative agreements between the partner organization and ADF stated that an audit will be conducted annually and a final indirect cost rate will be established. However, since April 2004, under the last three cooperative agreements with ADF, the partner organization did not audit its indirect cost rates as required and did not submit certificates of final costs. As a result, the partner organization overcharged ADF $182,866 in unallowable fringe benefit and indirect costs as described in Table 1.

Table 1. Provisional and Final Indirect Cost Rates

		Indirect Rate		Fringe Benefit Rate		
Agreement No.	**Period Covered**	**Provisional**	**Final**	**Provisional**	**Audited**	**Amount Overcharged to ADF**
1541	April 2004 to April 2005	38.91%	45.26%	N/A	N/A	$12,734[3]
1602	May 2005 to December 2005	45.31%	30.32%	67.55%	36.91%	$32,813
1602	January 2006 to December 2006	24.83%	13.70%	63.10%	53.09%	$55,126
1690	January 2007 to March 2008	25.84%	16.17%	73.17%	66.96%	$82,193
Total						**$182,866**

The final certification of indirect cost rates was not conducted as per ADF policies because the local accounting firm that performed the partner organization's audits was not aware of the rules and regulations that pertain to the audit of indirect costs. Consequently, they did not perform an audit of indirect cost rates in accordance with the applicable guidance. Also, the partner organization was not aware of the requirements of ADF and OMB Circular A-122 as they pertain to the process of establishing and calculating indirect cost rates and the need to monitor, review and audit indirect cost rates. Also, the former regional program coordinator and ADF/Washington did not provide adequate oversight to ensure that audits of indirect cost rates were performed in accordance with ADF policy.

According to the above-mentioned guidance, the use of an indirect cost rate was not warranted for the partner organization in Ghana because the partner organization had only a handful of employees, managed only one ADF award at a time, and did not have an adequate accounting system. Audits of awards that include a provisional indirect cost rate are more expensive than other audits because these awards need an audit not only of the fund accountability statement but also of the indirect cost rate. Awards that include an indirect cost rate place more of a burden on ADF staff because such awards require ADF to develop and implement procedures that monitor and update the indirect cost rate and ensure that the rate complies with the relevant requirements of OMB Circular A-122 and CIB 97-9. In May 2008, as a result of this OIG audit ADF/Washington eliminated the use of indirect cost rates with all ADF partner organizations. ADF/Washington also used indirect cost rates with partner organizations in eight additional countries in Africa.

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[3] Even though the final indirect cost rate was higher than the provisional rate, indirect costs were overcharged because actual labor costs were much higher than budgeted costs. The distribution base for the indirect cost computation was labor costs.

The result of not determining final indirect cost rates was that the partner organization overcharged ADF by $182,866 during the 4-year period. By minimizing the use of indirect cost rates, ADF would reduce its audit costs and level of effort.

Recommendation No. 5: We recommend that the African Development Foundation determine the allowability of questioned indirect costs totaling $182,866 and recover the amounts determined to be unallowable from the partner organization.

Recommendation No. 6: We recommend that the African Development Foundation amend its award documents to eliminate the use of indirect cost rates with African Development Foundation partner organizations and contact local accounting firms to conduct indirect cost rate audits for the other eight countries where indirect cost rates were used.

Audits Not in Compliance with ADF Policy

Summary: ADF policy requires that financial audits be conducted according to U.S. Government auditing standards and ADF Guidelines. However, OIG auditors found that the audits of the partner organization conducted by a local public accounting firm did not comply with this guidance. This noncompliance occurred because of a lack of oversight from the former regional program coordinator, the country representative, and ADF/Washington. As a result, $13,959 of audit costs were charged to ADF contrary to the agreements. In the absence of compliant audit reports, ADF increased its risks of financial loss and could not ensure that funds were accounted for and used for intended purposes in accordance with applicable laws and regulations.

ADF's Field Audit Guidelines for Grants and Cooperative Agreements (ADF Guidelines) state that ADF funds provided to nongovernmental recipients are to be audited in accordance with U.S. Government auditing standards and ADF Guidelines. It required that the audit firms be on the OIG list of eligible firms. It also stated that the ADF/Washington finance division will conduct quality control reviews of the work papers for a selected sample of audits to determine whether audit work was performed in accordance with ADF Guidelines. This guidance also required that ADF/Washington contract with the audit firms and review the audit reports before being finalized. The grant agreements stated that the partner organization would have annual financial audits in accordance with U.S. Government auditing standards. The standard provisions stated that an audit shall be completed, and the report submitted not later than 9 months after the close of the recipient's fiscal year. It also stated that the OIG would review the report to determine whether it complies with the audit requirements of the award.

The last two audits that the local public accounting firm performed for the partner organization (covering the period April 2004 to December 2006) were not completed according to U.S government auditing standards and ADF Guidelines, and were not sent to the OIG for review. Also, the local accounting firm responsible for conducting the audit of the partner organization was not on the OIG list of eligible firms. The audits were not contracted by ADF and the audit reports were not reviewed by ADF/Washington. Based on the interview with the audit firm and review of their work papers and audit reports, the audit team identified the following deficiencies:

- The reports' fund accountability statements did not include, as required, cash reconciliations and the notes to the fund accountability statements did not briefly describe the major budgeted items.

- The reports did not include an audit of the indirect cost rates.

- The reports did not include the scope and objectives of the audits and the audit firm had no supporting documentation for adjustments made to some expenditures in the audit report.

- There was no evidence in the work papers that an exit conference was conducted.

- The last two audit reports were completed 26 months and 11 months after the end of the fiscal years and were not submitted to the OIG for review as required by the partner grant agreements.

The partner organization paid $13,959 for audit costs during the period under review. However, as stated in the grant agreements' standard provisions and ADF Guidelines, no audit costs may be charged to ADF's award if audits have not been made in accordance with the terms of this provision.

The lack of compliance with the appropriate standards was mainly due to a lack of quality control program for the audits as well as a lack of oversight by the regional program coordinator and ADF/Washington. Despite the internal control and compliance deficiencies found during our audit concerning the partner organization's control environment, the local public accounting firm's last two financial audit reports did not include findings or questioned costs.

Without timely and compliant financial audits, ADF increased its risks of financial loss and could not ensure that funds were accounted for and used for intended purposes and in accordance with applicable laws and regulations. To ensure compliance with appropriate auditing standards, this audit makes the following recommendations.

Recommendation No. 7: We recommend that the African Development Foundation issue a bill for collection to its partner organization to recover $13,959 in audit fees charged to the award.

Recommendation No. 8: We recommend that the African Development Foundation require its internal auditor to review the audit reports on its partner organizations before the audit firms finalize their reports.

Recommendation No. 9: We recommend that the African Development Foundation comply with its grant agreement's standard provisions and issue specific guidance requiring its partner organization to submit its audit reports for review to the USAID Office of Inspector General and verify that the accounting firm is on the list of eligible firms.

Lack of Monitoring and Evaluation System

Summary: ADF policy and grant documents state that the partner organization and the country representative office will provide the grantees with technical assistance and related training and regularly monitor the program. However, the ADF/Ghana partner organization and country representative office had not developed or implemented an integrated and coordinated monitoring and evaluation system and provided grantees with necessary training. This was due to a lack of oversight by ADF/Ghana's former regional program coordinator, a lack of coordination between the ADF/Ghana regional office, country representative office and the partner organization, as well as a dysfunctional organizational structure. As a result, ADF/Ghana could not fully measure the efficiency and effectiveness of the program and ensure compliance with ADF policies.

ADF policy stresses the importance of ongoing monitoring and providing technical assistance to grantees to ensure early identification and the correction of problems and to ensure the quality of collected information. ADF policy requires that both the ADF country representative office and the partner organization implement program monitoring, evaluate the grantees' progress and provide training. Although the country representative office and the partner organization provided some technical assistance, they did not develop a monitoring schedule for their 13 business development officers[4] , had no mechanism in place to ensure adequate documentation of the grantees' progress in achieving objectives and had not assisted the grantees in obtaining the training required for smooth project implementation.

During the audit team's visits and interviews of 8 of 39 active grantees, the audit found that no training or technical assistance had been provided to the grantees in support of project development, financial management or the development of necessary technical skills. Only one of the eight grantees visited was able to complete ADF progress reports, and the information reported by these grantees had not been verified (see finding on page 12). Also, these eight grantees had not implemented adequate financial management systems (see finding on page17.)

The audit team also found that the performance indicators selected to monitor progress were more closely related to ADF inputs than to outputs and were not verifiable. As a result, ADF could not measure whether the grantees were achieving their objectives as per the terms of the agreement. For example, several grants' performance indicators were to hire an accountant, hire a bookkeeper, and procure a financial accounting system as opposed to indicators that measured the performance of the grantees in increasing profitability and in institutional strengthening. Also, several grants included as a performance indicator a functioning board of directors which was not easily measurable and verifiable. However, if the output was defined as the number of board meetings held and supported by adequately written minutes that summarize issues discussed and action taken, it could be more easily measured.

[4] According to the terms of their contract, business development officers participate in the execution of project development, project implementation and performance monitoring, as well as program/project reporting.

Within the partner organization, there was limited focus on monitoring and evaluation and monitoring was done mainly for reporting purposes with limited integration into the strategic planning and implementation processes. According to ADF policy, monitoring was intended to facilitate prompt interventions to resolve issues that might be impeding project success. Several monitoring visits were conducted during the period October 2006 to March 2008, however, only a few were documented and in most cases, the monitoring reports were incomplete. The monitoring reports usually did not address the grantees' progress toward each objective, and did not document steps needed to resolve issues that may be impeding project success. Also, the reports did not follow-up on the local accounting firm's audit findings and recommendations and whether these deficiencies had been corrected and questioned costs reimbursed to ADF.

According to ADF policy, the partner was the first line of project monitoring and the country representative office was to provide oversight. The audit team found that two of the eight projects visited were under the direct supervision of the country representative office and no staff member from the partner organization had been assigned to monitor these two grants; both grants had compliance deficiencies. A lack of coordination between ADF/Ghana's partner organization, country representative and regional coordinating office, as well as a dysfunctional organizational structure negatively impacted the development of a monitoring and evaluation system. Coordination is not something that occurs naturally between organizations. It must deliberately be encouraged. Yet, systems that facilitated coordination were lacking. For example, the partner's 11 business development officers were working and paid for by the partner organization, yet they were under the direct supervision of the regional program coordinator and were located in two different buildings so the partner's managing director could not easily monitor the work performed by its business development officers. Also, the business development officers were having regular meetings with the country representative office without the presence of the partner organization. The information systems were not adequate to track the performance of the grantees' projects and identify poor performing projects. Project files located in different buildings, were incomplete and inconsistent, and no summary control checklist existed in each grantee's file which documented when a grant was awarded, how much funds were received, if a financial audit had been performed, if follow-up on prior recommendations had been done, if progress reports were submitted, if grantees achieved objectives, and the precise address of the grantee to facilitate field visits.

Though the partner organization had 11 business development officers and the country representative office had 2 business development officers to manage 39 projects, there was no integrated monitoring plan that put forward who would go where and when. The way that the country representative office and the partner organization divided up the work of assisting grantees, efforts were duplicated and coordination and cooperation were lacking. As a result, ADF/Ghana could not fully determine whether a project was achieving its objectives, improve implementation or monitor the quality and timeliness of outputs produced by the grantees. Without a monitoring and evaluation system, ADF/Ghana cannot measure the efficiency and effectiveness of the program. Because ADF/Ghana did not have a monitoring and evaluation system in place the grantees did not receive needed technical assistance and training to improve project performance. The longer the program continues to be implemented without a monitoring and evaluation system in place, the less likely the program will be a success.

Recommendation No. 10: We recommend that the African Development Foundation/Ghana establish a monitoring and evaluation system. This will include at a minimum a control information checklist for each project implemented.

Recommendation No. 11: We recommend that the African Development Foundation issue clarifying guidance to improve coordination and cooperation between the regional office, the country representative office and the partner organization in Ghana and define clear lines of responsibility to avoid duplication of efforts and improve program implementation.

Recommendation No. 12: We recommend that the African Development Foundation revise its performance indicators to reflect grantee outputs to adequately measure progress towards achieving objectives.

Progress on Achieving Objectives Not Reported and Verified

Summary: According to ADF guidance, grantees should submit timely progress reports and verify performance data for completeness and accuracy. However, the partner organization and country representative office did not periodically ensure that the progress reports were submitted and did not verify the accuracy of the reported data. Among 39 active projects, only 19 (49 percent), had submitted their progress reports for the quarter ending December 2007 by the end of April 2008. For the fiscal year ending September 2007, 54 percent of grantees submitted their progress reports. Also, for 29 of the 35 results reviewed (83 percent), the results reported by grantees were incomplete, inaccurate or unsupported. This was due to an inadequate monitoring system, a lack of oversight as well as unclear guidance regarding ADF/Ghana's management responsibility to verify the reported performance data. As a result, ADF could not reliably determine whether grantees were meeting their objectives or assess the impact of the ADF program in Ghana.

ADF required all grantees to submit quarterly progress reports that included information on the current period as well as cumulative progress for the fiscal year. The format of the quarterly reports included a section on the analysis of the performance indicators, a grant description, an analysis of project achievements during the period, and a description of perceived risks and problems. A review of the quarterly progress reports for the period October 2006 to March 2008 showed that 95 of 218 reports were not submitted and the information reported was not accurate, complete and supported. According to the ADF Manual, Sections 630 and 631, the country representative and the partner organization will verify the grantees' reporting on performance targets to ensure that the reports are accurate and complete.

However, grantees did not submit some required progress reports. Only 54 percent of the grantees' progress reports were submitted to ADF/Ghana for fiscal year 2007 and only 49 percent of active grantees submitted the reports for the quarter ending December 2007 by the end of April 2008. The information reported was often not accurate, complete or supported. Progress reports for the quarter ending September 2007 did not convey a complete and accurate picture of the progress made towards achieving the planned outputs. While visiting 8 of 39 active project sites, the audit team compared information included in the ADF progress reports to supporting documentation. In 29 of the 35 results reviewed, information on actual results reported by grantees was inaccurate/unsupported, and incomplete as shown in Table 2 below.

Table 2. Review of Results Reported by Grantees

Project # and Name	Total Items	Items Tested	Accurate	Inaccurate/ Not Supported	Incomplete
1580 Woodhouse	7	7	0	5	2
1646 Ghana Nuts	6	6	4	2	0
1662 Creche Emily	7	5	0	2	3
1664 E. K. Agyei	6	6	0	4	2
1710 Santinos	6	6	1	5	0
1725 Teikura	6	5	1	4	0
1738 Brooks *	No progress reports				
1795 Yedent *	No progress reports				
TOTAL	38	35	6	22	7

*No progress reports submitted since project inception.

The ADF/Ghana partner organization and the country representative did not have a monitoring system in place to validate reported results and to ensure that all progress reports were submitted to ADF. Even though, based on the travel advances claimed, numerous monitoring visits were conducted by the partner organization, the audit team found that the reported information was not verified. Several examples of inaccurate and incomplete results follow:

- The number of Woodhouse employees was underreported while the salaries paid and production figures were overreported. For the quarter ending June 2007, Woodhouse reported 52 employees while the audit found supporting documentation for 98 employees. However, for the quarter ending in September 2007, the number of employees was not reported. Woodhouse reported salary payments of $92,245 for the quarter ending September 2007 while the OIG auditors found supporting documentation for $38,552. For the quarter ending September 2007, Woodhouse reported producing 80,000 pieces of furniture. However, according to its production records, only 1,298 were produced. Also, no information was included in the progress reports on the grantee's contribution to a staff cafeteria, to a scholarship scheme, or to a provident fund.

- The revenues generated by Creche Emily, a preschool nursery were overreported by more than 25 percent because data was not verified even though the grantee was located only a 15-minute drive from ADF/Ghana's office. In its report for the quarter ending September 2007, Creche Emily reported revenues of $9,747. However, the records indicated revenues of $7,622. Also, even though the grant objective was to

- increase the number of children attending the preschool, enrolment-related information was not included in the progress report.

- Santinos, a meat processing project, overreported the number of employees while salaries and production figures were underreported. Santinos reported engaging 20 employees during the quarter ending September 2007. However, documentation was found for only 9 employees. During the same period, Santinos reported paying salaries of $2,955. However payroll records showed salary payments of $3,876. Santinos reported producing 2,660 kg of processed meat for the quarter ending September 2007. However, a review of the production records showed that Santinos produced 9,114 kg.

- E. K. Agyei, a producer of dried pepper, reported revenues of $9,097 and $12,180 for the third and fourth quarters of FY 2007, respectively. However, the audit found supporting documentation for revenues of $5,181 for the quarter ending in June 2007 and of $3,031 for the quarter ending September 2007. Also, the progress report did not include information on the implementation of the financial system or the business plan which were both indicators in the grant agreement.

According to ADF policy, the country representative and the partner organization were responsible for validating the reported data. However, the scope of work for the country representative and the partner organization did not include any specific responsibilities to ensure that reported information would be verified. An inadequate monitoring and evaluation system, a lack of oversight, and of periodic reviews of performance data contributed to the weakness of the data collection, analysis and reporting procedures. Consequently, ADF could not reliably determine if program activities were meeting objectives or address related implementation problems. Without reliable information, decision makers can draw erroneous conclusions regarding the performance of the projects leading to improper management decisions and the reporting of incorrect information to Congress.

To correct the above deficiencies, this audit makes the following recommendation.

> *Recommendation No. 13: We recommend that the African Development Foundation define and delineate the responsibilities of its partner organization and its country representative office in Ghana, to include the verification and timeliness of grantees' progress reports to obtain reasonable assurance that the information is accurate and complete.*

Indications of Fraud and Misuse of Funds by ADF/Ghana Grantees

Summary: According to ADF and the Government Accountability Office auditing guidance, when there is reason to suspect that illegal acts, violations of provisions of agreements or indications of fraud have occurred, these matters must be referred to the ADF Finance Division and the OIG. Also, OMB Circular A-122 and ADF policy require fair bargaining processes and effective use of resources. However, during the visits to grantee project sites, the audit team found indications of fraud and misuse of funds. This occurred because of deficiencies in the design and operations of the

internal control system at ADF/Ghana, a lack of oversight and an inadequate monitoring and evaluation system. As a result, questioned costs amounting to $516,492 were identified. If ADF/Washington and the OIG are not notified of allegations, investigations of possible fraud cannot be made, corrective actions may not be taken, and further losses may occur.

According to ADF standard provisions, all procurement transactions over $10,000 shall be conducted in a manner to provide open and free competition. OMB Circular A-122 states that in determining the reasonableness of a given cost, consideration shall be given to such factors as generally accepted sound business practices, arms-length bargaining, and Federal and State laws and regulations. ADF Manual 630 states that monitoring is "a quality assurance process to ensure the effective use of resources provided by the Foundation." In addition, U.S. Government auditing standard 4.29 states that when there is reason to suspect that misstatements arising from fraudulent financial reporting or misappropriation of assets have occurred, this information must be reported to the investigatory authorities of the auditee in question, in this case, the OIG. According to the ADF guidelines, any evidence of irregularities or illegal acts should be reported to the ADF Director, Finance Division.

The Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government states that an agency's internal controls should provide reasonable assurance concerning the effectiveness and efficiency of operations, including the use of the entity's resources. In this case, ADF/Ghana's limited internal controls were not able to effectively manage the use of resources by its partner organization, its country representative and its grantees.

ADF grant agreements state that a grantee commits a dishonest act if it makes a false statement to ADF regarding a material fact that misrepresents information, and that commission of a dishonest act by the grantee may automatically terminate the grant. In case of such termination, ADF will require the grantee to return to ADF all grant financial and physical property. In the audit team's opinion, the following three grantees did not comply with the terms of the agreement and are subject to reimbursement of the totality of the funds received from ADF which totaled $516,492

The partner's grant agreements require the partner to perform procedures and minimize the risk of misuse of funds by grantees. Yet, we did not find evidence that the partner organization or the country representative office complied with this requirement. During visits to the grantees, and reviews of project documentation the audit team found irregularities and misuse of funds by three of eight visited grantees as described below.

- Santinos, a meat processing enterprise, purchased a used meat grinder at a cost of $36,550. The grinder was purchased from the project manager who was a related party. Santinos paid $6,550 more than the price of $30,000 stated on the proforma invoice. Also, in 2006, Santinos submitted a disbursement request to ADF/Ghana to procure 4 pieces of equipment for meat processing valued at $34,920. The vendor selected by Santinos was named ADF International Procurement Company. The name of the vendor aroused suspicion within ADF/Washington and subsequent research revealed that the company did not exist and the address listed on the proforma invoice was that of an immigration law office in Minneapolis, Minnesota. At that time, ADF/Washington wanted to terminate the grant, but the ADF/Ghana regional coordinator said that instead they would monitor the grantee closely.

- According to the amended and revised budget, Woodhouse, a furniture maker, was expected to purchase a 15-seat bus to provide transportation to its employees working on the night shift. However, Woodhouse procured a minivan. Based on the evidence collected, the minivan was used by the wife of the project director to transport their children to and from school. Also, Woodhouse purchased a used, non-functioning generator in June 2005 and charged ADF $22,421. The generator had never been used because the oil pan was missing and the hours of usage noted by the OIG auditors were the same as on the invoice. The price of a new generator from a reputable supplier was $19,900 as of October 2007. In addition, ADF/Washington directly transferred $14,625 to a supplier in Ghana to develop an integrated software package. The supplier developed and installed the software and trained five Woodhouse employees on the software. However, the Woodhouse director requested that the total sum be transferred to him personally on the premise that the software had not been developed. If the software was not working as it was intended to, it was because Woodhouse had not collaborated with the supplier and installed a network so that the software could be used simultaneously by the production and sales departments. Woodhouse with the assistance of the country representative recovered from the supplier under threat the sum of $14,625 but did not deposit the money into ADF's bank account. Instead, the money was deposited in Woodhouse's own business account. The partner's staff member assigned to this grantee left ADF/Ghana in April 2007 after reporting irregularities in the financial information reported by the grantee. Since that time, only the country representative office was directly responsible for this grantee, contrary to ADF policy which requires that the partner organization monitor the grantees.

- Creche Emily, a preschool nursery, was approved by ADF on the assertions that the school building was a one-story house, located in a poor part of town and serving 200 school children. However, the audit team found that the building was three stories and located in an affluent neighborhood of Accra. The team also found that the grantee was living in the third floor of the building and her mother, who owned the building, was living in the second floor. The audit team also found that during the last three years, this project had only served about 100 children. ADF assistance provided the grantee with an extension of three rooms, a kitchen and all sorts of kitchenware to furnish the kitchen. This was a one year organizational grant, yet most of ADF funds were spent on capital assets and no business plan was developed as required by the grant document. We also found that ADF had been charged $1,100 for the accounting software QuickBooks 2006 while in the United States the software can be purchased for less than $200. In addition, the audit found that the project's air conditioner, the microwave, the desktop computer and the laptop computer were stored on the third floor of the building in the grantee's home rather than in the preschool nursery. This project was only a 15-minute drive from the partner and the country representative offices so it was easy to monitor. Yet, accurate information on the grantee and misuse of ADF funds were not reported by the partner organization and the country representative office to ADF/Washington.

Although, the country representative office and the partner organization staff conducted numerous site visits to these projects, they did not verify that assets were procured and used for intended purposes. The misuse of ADF funds occurred primarily because of a lack of adequate monitoring and oversight by ADF/Ghana as well as a weak control environment. As a result, ADF funds were not used in compliance with ADF policy and for intended purposes. If ADF is not aware of these irregularities, it cannot inform the

OIG of allegations of impropriety, a proper investigation of potential fraud cannot be conducted, corrective actions may not be taken, and further losses may occur. To correct these deficiencies, this audit makes the following recommendations.

Recommendation N.14: We recommend that the African Development Foundation determine the allowability of $516,492 disbursed to grantees and recover the amounts determined to be unallowable.

Recommendation No. 15: We recommend that the African Development Foundation develop procedures to minimize the risks of misuse of funds and verify that assets are procured and used in compliance with African Development Foundation policies.

Several Grantees Suffered from Weak Financial Management Practices

Summary: According to ADF grant documents, grantees shall establish a financial management system to properly account for funds received. Only one of the eight grantees visited had an adequate financial management system, in part because the grantees did not receive training and proper guidance on financial management practices. As a result, neither ADF/Ghana nor the grantees were able to determine the profitability and sustainability of the projects. Poor financial management practices can potentially lead to fraud, waste, and abuse.

According to ADF agreements, grantees should increase their management capacity, and develop and implement accounting and financial procedures. An accounting system usually provides the necessary documentation to allow for the verification of transactions, facilitates timely preparation of disbursement requests, and provides information on the profitability of projects. The partner's grant agreements state that the partner will visit project sites to assist grantees in maintaining sound financial management practices and provide onsite training to address deficiencies. However, only one of the eight grantees visited had an adequate financial management system and had performed an analysis of profitability. Moreover, none of the grantees visited had received any formal training in financial management and four grantees were not using computerized accounting software or Microsoft Excel even though ADF-funded computers were available.

A few specific examples of financial management weaknesses follow.

- Woodhouse, a grantee with a furniture manufacturing project, was awarded a grant in September 2004. The grantee had received $14,625 for the development of an integrated production-sale and financial accounting system. The auditors found during their site visit that the grantee routinely prepared its financial records manually even though ADF/Ghana had provided the grantee with four computers. Moreover, the grantee's accounting records were inadequate. The draft audit report issued by a local accounting firm in May 2008 stated that Woodhouse was commingling ADF funds with other operational incomes and that the bank balance did not reconcile with the fund accountability statement as of January 31, 2008.

- E. K. Agyei, a grantee with a pepper-processing enterprise, was awarded a grant in August 2006 to acquire and implement a functional financial management system including training for the accounting officer. However, during our visit to the grantee we found that E. K. Agyei had no accounting system, the new accountant did not know how to use a computer, had not received any training and was using a basic manual accounting system. Yet, ADF/Ghana had funded two computers and paid for the salaries of one accountant and one bookkeeper. Moreover, the partner organization had conducted at least 13 field visits to this grantee during the period January 2007 to March 2008.

- Santinos, a food-processing project, was awarded a grant in September 2006. Santinos had a manual record-keeping system and could not provide supporting documentation for the sales or the profit and loss reported. The audit found that the grantee was commingling ADF funds with other funds. Supporting documents for quarterly ADF liquidations were missing, and expenses were recorded for items that were not in the approved budget. The grantee's accounting records were produced manually and were in disarray. However, according to the grant agreement, ADF/Ghana was to provide assistance to improve all accounting procedures, develop a financial management system and conduct training.

These financial management weaknesses were due to a lack of technical assistance and training by the partner organization. All of the grantees interviewed said that the partner organization did not provide them with technical assistance on financial management practices even though financial management training was budgeted for all grantees visited. Weak financial management practices followed by grantees can result in disallowances or delays in receiving ADF funds that are needed for project activities. Weak financial management practices may also create vulnerabilities to fraud, waste, and abuse.

> *Recommendation No. 16: We recommend that the African Development Foundation prepare an action plan for providing grantees with financial management training* with specific implementation dates *and assign specific responsibility to the partner organization to ensure that grantees adopt sound financial management practices.*

Grantees' Noncompliance with Agreement Terms

Summary: Several grantees were not in compliance with the terms of their agreements. The concerned grantees did not contribute, as required, to the ADF-designated community development trust fund. Also, the contributions were not held in an ADF trust fund account. This instance of noncompliance with the grant agreements was due to a lack of policy and procedures by ADF/Washington, inadequate monitoring and evaluation system and a lack of oversight by the ADF/Ghana regional program coordinator. As a result, $69,694 was provided to two organizations without proper approval from ADF/Washington. Also, ADF increases its risks of financial loss and could not ensure that funds were accounted for and used for intended purposes.

According to ADF's grant agreements for some projects, the grantee shall contribute a certain sum to an ADF-designated community development trust fund (Fund) established to further social and economic development at the community level. The contributions are required during the life of the agreement and are deposited into an interest-bearing account established in the name of the Fund. It also states that if the Fund has not been established the payments would be made to the partner organization. Of the projects implemented by ADF, 20 projects were required to contribute to the community development trust fund. However, the audit found that even though 11 of 20 grantees had made some contributions only 1 grantee had complied with the terms of the agreement and contributed the required amount. Also, only $364,581 of $3.4 million required contributions (11 percent) had been provided. Moreover, according to the terms of the agreements, the funds were deposited with the partner organization without being held in a proper ADF trust fund. The audit team also found that the partner organization did not adequately monitor and account for the funds contributed. During the course of the audit, ADF/Washington staff, including the internal auditor, were visiting Ghana in part to reconcile the partner organization's account and review transaction records. They found that the partner organization had provided $69,694 to two organizations without proper approval of ADF/Washington or any agreement documents.

This lack of compliance with the terms of the agreements was due to several factors including: (a) no written ADF policy on the setup and use of the Fund (b) an inadequate monitoring and evaluation system and (c) a lack of oversight by the regional program coordinator. If ADF does not take action to ensure compliance with the terms of the agreement, ADF loses credibility with the grantees and does not ensure the program's financial sustainability. For example, one grant awarded in 2005 was expected to contribute $626,219. However, as of March 2008 the grantee had only contributed $5,102 and the project will end in September 2008. Another grantee was expected to contribute $350,000. However, as of March 2008, the grantee had only contributed $5,100 and the project was closed in September 2007. In addition, ADF increased its risks of financial loss and could not ensure that funds were used for intended purposes. This also created vulnerabilities to fraud, waste, and abuse.

According to its mandate, ADF strives to develop sustainable social enterprises. However, the grantees have not developed sustainable businesses and have not been able to fully contribute to the community reinvestment fund. Sustainable development is development that continues to provide benefits after donor funding ends. ADF's enterprise development grantees had not developed plans to sustain activities once ADF funds were no longer available. ADF did not adequately address sustainability because higher priority was placed on project development. More attention needs to be devoted to sustainability to better ensure that the grantees' activities will continue after the cessation of ADF funding. Paying salaries that the grantees will not be able to maintain after ADF assistance ends does not contribute to strengthening these institutions. To ensure compliance with ADF policy this audit makes the following recommendations.

Recommendation No. 17: We recommend that the African Development Foundation establish relevant implementing procedures to (a) ensure that the grantees make their required contributions to the community reinvestment fund, (b) establish a policy on the use of the community development trust fund, (c) refund the amount of $69,694 of unauthorized contributions and (d) take the necessary steps to transfer grantees' contributions totaling $364,581 from its partner organization to ADF/Ghana.

Recommendation No. 18: We recommend that the African Development

Foundation develop a clear action plan that addresses sustaining project activities after the African Development Foundation's support has ended.

EVALUATION OF MANAGEMENT COMMENTS

The African Development Foundation generally agreed with the findings and recommendations contained in the draft report. In its comments on the draft report, ADF concurred with recommendation no. 1 and is reviewing the questioned costs to determine their allowability and will initiate collection of all costs determined to be ineligible or unsupported. With regard to recommendation no. 2, ADF has already taken measures to strengthen its internal controls and ensure compliance with its policies. In response to recommendation no. 3 ADF has undertaken an audit of its representative office and has conducted solicitations to select a new partner. With regard to recommendation no. 4, ADF has initiated actions to dispose of the unused equipment. Based on the information provided, management decisions have been reached for recommendation nos. 1, 2, 3, and 4.

ADF concurred with recommendation no. 5 and got reimbursement for a substantial part of the amount questioned in the audit report. ADF is in the process of reconciling the difference between that reimbursement and the questioned amount identified in the audit report. We consider that a management decision will be reached when ADF makes a determination on the allowability of the entire amount questioned in the audit report. ADF stated that it did not agree completely with the statement that the partner organization was not aware of the requirements of ADF and OMB Circular A-122 regarding the process of establishing and calculating the indirect cost rates and the need to monitor review and audit the indirect cots rates. We agreed with ADF comments that ADF provided guidance and instructed its partner organization regarding the requirements of the indirect costs rates. However, the partner organization stated that it had not read and understood the guidance and was not aware of the requirements.

In commenting on recommendation no. 6, ADF partially agreed to eliminate the use of indirect cost rates with its partner's organizations from those cooperative agreements that expire after September 30, 2008. However, for practical reasons, ADF will not delete the provisions from those agreements that expire on or before the end of fiscal year 2008 and for those partner organizations that have a Negotiated Agreement with a cognizant Federal agency. We agreed with the approach of ADF and we consider that a management decision has been reached for recommendation no. 6.

ADF agreed with recommendation no. 7. ADF will include these questioned costs in the amount to be collected as part of the ongoing closeout with its former partner organization's cooperative agreement. In response to recommendation no. 8 ADF will require its internal auditor to review the audit reports. We consider that a management decision has been reached for recommendation nos. 7 and 8.

With regard to recommendation no. 9, ADF did not agree to have the partner organization's audit reports reviewed by USAID Office of Inspector General. Rather, ADF has established an internal audit office which has the capacity to review the partners' audit reports in accordance with its policies. We maintain our recommendation and request that partners' audit reports be sent to the OIG for informational purposes. The OIG will not formally review the reports but will be informed of potential problems in the implementation of ADF programs. This will allow the OIG to ensure the quality of these audits. A management decision will be recorded when ADF has established a firm plan of action, with target dates, for the recommendation.

With regard to recommendation no. 10, ADF agreed with the audit finding and will ensure that the new partner establishes a monitoring and evaluation system. ADF agreed with recommendation no.11 and has completed a major restructuring of the field operations in Ghana. ADF will issue guidelines to improve coordination and define clear lines of responsibility. Based on ADF's comments, management decisions have been taken on recommendation nos. 10 and 11.

ADF partially concurred with recommendation no. 12 on establishing output indicators to adequately measure progress. ADF commented that it cannot revise output indicators. Rather, ADF has issued guidelines on establishing accurate and measurable indicators. We believe that ADF has taken appropriate action and, based on ADF's response, a management decision has been reached.

ADF concurred with recommendation no. 13. ADF will issue guidelines to delineate the responsibility of field staff to include the verification and the timeliness of the grantees' progress reports. Accordingly, a management decision has been reached on this recommendation.

ADF agreed with recommendation nos. 14 and 15. In response to recommendation no. 14, ADF will convene a termination committee to determine the allowability of costs and determine a process for recovering the unallowable expenses. In response to recommendation no. 15, ADF is developing procedures and tools to monitor the financial performance of grantees and the proper use of assets and also to train the partner organization on these procedures and tools. Accordingly, we consider that a management decision has been reached for recommendation nos. 14 and 15.

ADF concurred with recommendation no. 16 and will provide regular financial training to the grantees through a separate agreement with a local accounting firm. Based on ADF's response, a management decision has been reached.

In response to recommendation no. 17, ADF partially agreed with the recommendation. ADF is developing a policy on the community trust funds (Trust) and establishing a formal trust as well as implementing an action plan to transfer the grantee contributions from its partner organization. However, since grantee commitments to the Trust are voluntary pledges, enforcement options open to ADF are limited. However, once the Trust is operational, it will have the legal and moral authority to enforce pledges. ADF disagreed that the former partner organization be required to reimburse $69,694 because the funds were donated to legitimate community development activities and the decision was not made by the partner organization. We agreed with ADF's plan of action. A management decision will be recorded when ADF has established a firm plan of action, with target dates, for the establishment of the Trust.

ADF agreed with recommendation no. 18 and will issue guidelines for the development of a sustainability plan for its active projects. Accordingly, a management decision has been reached on this recommendation.

We believe that ADF's comments and planned actions are responsive to the report's recommendations. ADF's comments in their entirety are presented in appendix II. A determination of final action with regard to the measures taken by ADF to address these recommendations will be made by ADF's audit committee upon completion of the proposed actions. We ask that we be notified of the audit committee's actions.

SCOPE AND METHODOLOGY

Scope

The Office of the Regional Inspector General/Dakar (RIG/Dakar) conducted this audit of the African Development Foundation in Ghana (ADF/Ghana) in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The purpose of the audit was to determine whether ADF/Ghana implemented its activities in accordance with ADF policies and selected U.S. Government regulations. The audit scope covered the period April 2004 to March 2008 to cover the entire period when provisional indirect cost rates were used.

In planning and performing this audit, RIG/Dakar obtained an understanding of and assessed ADF/Ghana's controls related to the management of its program including an examination of accounting records and other auditing procedures which we deemed necessary under the circumstances. The audit included a detailed review of 8 of 39 projects of ADF/Ghana active at the end of fiscal year 2007. We judgmentally selected a sample of eight projects based on the amount of ADF funds disbursed and the potential for assets to be misused while ensuring a representative mix of urban and rural projects.

During the audit, we interviewed ADF/Washington officials on temporary duty in Ghana and officials from the partner organization, the country representative office and the regional office. The fieldwork was performed from April 7, 2008 to May 9, 2008 at the ADF offices in Accra, Ghana and at various grantee project sites throughout Ghana. ADF/Washington obligated $7.5 million and disbursed $7.1 million to ADF/Ghana from April 1, 2004 to March 31, 2008 for program-related activities.

Methodology

To answer the audit objective, we visited and conducted interviews at the ADF regional and country representative offices as well as the partner organization responsible for providing technical assistance and monitoring oversight of ADF projects. We reviewed applicable ADF policy documents and documentation including grant documents, budgets, general program documents and grantees' progress reports. At the partner organization's office we reviewed all expenditure vouchers for the period April 1, 2004 to March 30, 2008 and conducted an audit of indirect cost rates. We also reviewed the partner organization's bank statements, minutes of the board meetings, and provident fund records. We followed up with several suppliers, hotels and other service providers to obtain reasonable assurance of detecting situations or transactions in which irregularities and illegal acts may have occurred.

At the eight grantee project sites visited, we observed the projects' operations and interviewed grantee representatives. We tested data included in the grantees' progress reports by comparing reported information to supporting documentation such as production cards, sales invoices, payroll records, general ledgers, and other source documents for selected quarters and for selected performance results. We interviewed auditors from the local accounting firms that conducted the audits of ADF grantees and the partner organization. We also reviewed the financial audit reports for conformance with ADF guidelines and verified whether the local accounting firms were on the OIG list of approved audit firms.

To judge the significance of variances between reported accomplishments and supporting documentation, we considered a variance of 10 percent or more to be significant and reportable.

MANAGEMENT COMMENTS

September 9, 2008

Mr. Dennis Bryant
Regional Inspector General
U.S. Agency for International Development
Ngor Diarama
Petit Ngor, BP 49
Dakar, Senegal

Dear Mr. Bryant:

I am writing regarding the Draft August 14, 2008 Office of Inspector General "Audit of the African Development Foundation/Ghana Project Activities." Attached is the US African Development Foundation response to each of the 18 recommendations. The African Development Foundation concurs with 14 of the recommendations, partially concurs with 3, and does not concur with 1 recommendation (Number 9). In the one instance in which USADF does not concur, we agree on the substance of the recommendation but are implementing what we believe to be an even stronger approach.

The African Development Foundation is a small USG agency with a high impact mission. As created by Congress in 1980, ADF is to provide assistance to the most marginalized, underserved, underprivileged populations in Africa and it is to be done in a community participatory manner. The majority of the grant portfolio administered by ADF involves job creation and local social benefits. Funding comes from the United States Congress and in a more limited manner from strategic partner funds donated by host country governments to carry out the USADF mission.

Appropriated funds and other available resources must be handled in a manner reflecting the very best integrity, judgment, and management practices. ADF is in the process of strengthening an internal audit unit, both in Washington, D.C. and in Africa, and has advertised and is close to hiring a Senior Internal Auditor to supervise directly these activities to ensure an ongoing review and assessment of internal controls. In addition, a monitoring and evaluation unit was established last year to provide another continuing set of eyes and ears to program activities. Finally, internal controls are vastly improved.

The Office of the Inspector General (OIG) Audit Report has helped identify several program and administrative areas in Ghana that need to be either improved or fixed.

ADF is doing that and the Board of Directors, staff and I appreciate the hard work and attention to detail that has been put into this audit report by the IG staff.

All recommendations are being viewed in an urgent manner and as a part of the attached response. ADF has identified a timeline for correction. New program activities in Ghana have been temporarily suspended until ADF has in place all the necessary internal controls, monitoring and evaluation, and management practices. The Africa Regional Office, as identified in this audit report, has been closed and a new partner organization is being selected. ADF maintains a small Ghana specific representative office and is expanding an Accra based office responsible for auditing and internal controls.

Sincerely,

Lloyd O. Pierson
President/CEO

Attachments

ADF's RESPONSE TO THE
AUDIT OF THE AFRICAN DEVELOPMENT FOUNDATION
GHANA PROJECT ACTIVITIES
REPORT NO. 7-ADF-08-00X-P

RECOMMENDATION NO. 1: We recommend that the African Development Foundation determine the allowability of $202,100 in ineligible questioned costs and $127,836 in unsupported questioned costs and recover from the partner organization the amounts determined to be unallowable.

ADF RESPONSE: We concur.

Discussion: ADF is reviewing the questioned costs with the former partner organization in Ghana. By September 30, 2008, we will initiate collection of all costs determined to be ineligible or unsupported.

RECOMMENDATION NO. 2: We recommend that the African Development Foundation establish a plan to correct internal control and compliance deficiencies discussed in this report. This will include at a minimum the use of monthly timesheets, completion and review of vehicle log books, approval of bank reconciliations, documentation of directors' meeting and liquidation of travel advances.

ADF RESPONSE: We concur.

Discussion: We have already taken measures to ensure the ADF staff remaining in Ghana complies with internal control requirements. In June 2008, Washington staff trained the field staff in a number of areas related to financial management, internal control, and project monitoring. New procedures and tools for maintaining time sheets and vehicle logs have implemented. A Washington-based staff person is providing oversight from Ghana until the new field structure is in place.
ADF has ended its cooperative agreement with the partner that is the subject of this report. At present we have no partner organization in Ghana. The selection of a new partner based on full and open competition procedures is imminent. The target date for bringing the new organization on board is October 1, 2008. At that time we will train the new partner in ADF's internal control procedures and financial management policies and procedures, and issue the final master plan for ensuring the partner and ADF field staffs comply with the internal control requirements.

RECOMMENDATION NO. 3: We recommend that the African Development Foundation issue a request for proposals (a) to conduct a financial audit of its Ghana country representative office for the calendar year 2007 to assess whether ADF funds were used in compliance with ADF policies; and, (b) to select a partner based on a competitive process to comply with U.S. regulations.

ADF RESPONSE: We concur.

Discussion: ADF has completed most of the actions required to satisfy Recommendation No. 3. A local auditing firm on the Inspector General's list of approved firms has completed an audit of the Ghana country representative's office. ADF has solicited for a new partner. ADF used competitive procedures that comply with U.S. regulations to conduct the solicitations for the local accounting firm and the new partner.

By September 30, 2008, we will (a) determine if the country representative used ADF's funds properly and take collection actions, as appropriate; and, (b) award a partner cooperative agreement to a new organization.

RECOMMENDATION NO. 4: We recommend that the African Development Foundation take appropriate measures to sell or replace unused assets.

ADF RESPONSE: We concur.

Discussion: In March 2008, ADF initiated actions to dispose of the unused equipment in the Ghana field offices. All of the equipment except two satellite dishes and a satellite signal modem have been relocated to other ADF offices. In August, a final determination was made that no other ADF offices could use the remaining equipment. Since that determination, ADF has been in discussion with USAID/Monrovia to determine if the equipment meets the Mission's needs. ADF also will offer to sell the equipment to other United States Government Agencies in Ghana. If the offer does not result in a sale, ADF will include the equipment in the auction managed by the United States Embassy in Ghana, at the earliest possible opportunity.

RECOMMENDATION NO. 5: We recommend that the African Development Foundation determine the allowability of questioned indirect costs totaling $182,866 and recover the amounts determined to be unallowable from the partner organization.

ADF RESPONSE: We concur.

Discussion: The partner organization that is the subject of this report has returned to ADF $129,000 of the payments ADF made for indirect costs. ADF is in the process of reconciling the difference between that reimbursement and the questioned amount identified in the report. However, we do not agree completely with the statement on page 7 of the report, which reads as follows: "...the partner organization was not aware of the requirements of ADF and OMB Circular A-122 as they pertain to the process of establishing and calculating indirect cost rates and the need to monitor, review and audit indirect cost rates." The ADF staff provided guidance and instructed the partner organization in the calculation and requirements of the indirect cost rates.

RECOMMENDATION NO. 6: We recommend that the African Development Foundation amend its award documents to eliminate the use of indirect cost rates with African Development Foundation partner organizations and contact local accounting firms to conduct indirect cost rate audits for the other eight countries where indirect cost rates were used.

ADF RESPONSE: We concur in part.

Discussion: Currently, eight of ADF's partners' cooperative agreements have indirect cost provisions. ADF will require each of these organizations to contract with local accounting firms on the USAID Office of Inspector General's list of eligible firms to conduct an audit of the organizations' indirect cost rates in accordance with the United States Generally Accepted Government Auditing Standards (GAGAS). We will eliminate the indirect cost provisions from those cooperative agreements that expire after September 30, 2008. For practical reasons, we will not delete the provisions from those agreements that expire on or before the end of Fiscal Year 2008. In addition, ADF will not delete the indirect cost rate provision for those partner organizations that have an indirect cost Negotiation Agreement with a cognizant Federal agency.

RECOMMENDATION NO. 7: We recommend that the African Development Foundation issue a bill for collection to its partner organization to recover $13,959 in audit fees charged to the award.

ADF RESPONSE: We concur.

Discussion: ADF will include this amount in the collection issued as part of the ongoing closeout of the former partner organization's cooperative agreement.

RECOMMENDATION NO. 8: We recommend the African Development Foundation require its internal auditor to review the audit reports on its partner organizations before the firms finalize their reports.

ADF RESPONSE: We concur.

Discussion: ADF has amended the position description for the ADF internal auditor to require the incumbent to review the audit reports of partner organizations before the firms finalize their reports. In addition, we will amend the partner organizations' cooperative agreements to incorporate this change.

RECOMMENDATION NO. 9: We recommend that the African Development Foundation comply with its grant agreement's standard provisions and issue specific guidance requiring its partner organization to submit audit reports for review to the USAID Office of Inspector General and verify that the accounting firm is on the list of eligible firms.

ADF RESPONSE: We do not concur.

Discussion: At the time this requirement was added to the standard provisions of the cooperative agreements, ADF did not have an internal audit function. Recently, management decided to establish an internal audit office in Washington that will include two senior auditors and field support staff in Accra. The new audit office will have the capacity to review the partner audits, and the office will ensure that only firms determined eligible by the USAID Office of Inspector General will conduct the audits. We will amend the standard provisions to reflect this change.

RECOMMENDATION NO. 10: We recommend that the African Development Foundation/Ghana establish a monitoring and evaluation system. This will include at a minimum a control information checklist for each project implemented.

ADF RESPONSE: We concur.

Discussion: The ADF/Ghana team has recently developed tools to track and assess financial and project activity performance. In October 2008, ADF will work with the new partner organization to finalize the monitoring and evaluation system and train the staff in its use. Routine portfolio reviews will be a central element of the system.

RECOMMENDATION NO. 11: We recommend that the African Development Foundation issue clarifying guidance to improve coordination and cooperation among the regional office, the country representative office and the partner organization in Ghana and define clear lines of responsibility to avoid duplication of efforts and improve program implementation.

ADF RESPONSE: We concur.

Discussion: ADF completed a major restructuring of the field team in Ghana. First, the regional office was abolished. In its place is a small staff reporting directly to the Washington audit office and having responsibility to provide auditing and internal control support services to all ADF programs. ADF will award a stand-alone cooperative agreement to an accounting firm to provide financial implementation and management support to grantees. This cooperative agreement will be managed by the Regional Program Director in Washington. Second, the position of country representative was eliminated and the staff was reduced to five persons, three of whom are professional staff. This staff reports to the Regional Program Director, who has assumed the function of the country representative. Third, ADF ended its relationship with the partner organization discussed in this report and will enter into a relationship with a new partner by October 1, 2008.

Under the new structure, two (as opposed to three) entities are involved in the management of the Ghana program; and it is clear that leadership of the entire operation is vested in the Regional Program Director, who is supported by a full-time Washington-based portfolio analyst dedicated to the Ghana program. The field staff is clearly a part of ADF and the cooperative agreement partners are clearly independent organizations. Once the new partners are on board, ADF will issues guidelines that delineate the roles of the ADF field staff and the partner organizations.

RECOMMENDATION NO. 12: We recommend that the African Development Foundation revise its performance indicators to reflect grantee outputs to adequately measure progress toward achieving objectives.

ADF RESPONSE: We concur in part.

Discussion: We agree that each project must have output indicators that adequately measure progress toward achieving objectives. However, we cannot revise output indicators because none are prescribed. Rather, ADF has issued the guidelines to assist design teams in formulating accurate and measurable indicators. We believe the appropriate action is to instruct the ADF field staff and partner organization in how to use the guidelines.

It is difficult to standardize indicators at the output level because they are project specific and must be based on an analysis of the particular objectives, assumptions, and circumstances associated with the project. For this reason, ADF has opted to provide guidelines on establishing output indicators. Although the guidelines include sample output indicators for the categories of ADF projects, they emphasize diligent project analysis as the basis for selecting indicators. Once the new Ghana program partner is in place, ADF/Washington will provide training to the partner's staff, which will address the problems identified in the report. In addition, ADF will take measures at the project review level to ensure indicators comply with the guidelines.

RECOMMENDATION NO. 13: We recommend that the African Development Foundation define and delineate the responsibilities of its partner organization and its country representative office in Ghana, to include the verification and timeliness of grantees' progress reports to obtain reasonable assurance that the information is accurate and complete.

ADF RESPONSE: We concur.

Discussion: As stated above, once the new partner organization is in place, ADF will issue guidance to delineate the responsibilities of the partner organization and the ADF field staff. Verification and timeliness of grantees' reports will be covered in this guidance. The partner organization will have the responsibility for assuring that grantee reports are accurate, complete, and submitted in a timely manner. ADF has revised Manual Section 631 and the partner cooperative agreements to highlight this role for the partner organizations. The ADF staff will conduct oversight and support the Regional Program Director in performing inherently governmental functions such as representing ADF, remediation, and explaining ADF's policy and procedures and Federal laws and regulations.

RECOMMENDATION NO. 14: We recommend that the African Development Foundation determine the allowability of $516,492 disbursed to grantees and recover the amounts determined to be unallowable.

ADF RESPONSE: We concur.

Discussion: ADF will convene a termination committee meeting for the projects. The committee will determine the allowability of costs and the process for recovering unallowable expenses.

RECOMMENDATION NO. 15: We recommend that the African Development Foundation develop procedures to minimize the risks of misuse of funds and verify that assets are procured and used in compliance with African Development Foundation policies.

ADF RESPONSE: We concur.

Discussion: ADF is developing procedures and tools to monitor the financial performance of grantees and verify that assets are procured and used in accordance with the Foundation's policies. Partner organizations will receive training on these procedures and tools.

RECOMMENDATION NO. 16: We recommend that the African Development Foundation prepare an action plan for providing grantees with financial management training with specific implementation dates and assign specific responsibility to the partner organization to ensure that grantees adopt sound financial management practices.

ADF RESPONSE: We concur.

Discussion: ADF is in the process of awarding a cooperative agreement to an accounting/financial management firm to provide financial management training and support to grantees in Ghana. The recipient of this cooperative agreement will monitor financial performance and develop specific action plans for each grantee to ensure they develop sound financial management practices.

RECOMMENDATION NO. 17: We recommend that the African Development Foundation establish relevant implementing procedures to (a) ensure that the grantees make their required contributions to the community reinvestment fund; (b) establish a policy on the use of the community development trust fund; (c) refund the amount of $69,649 of unauthorized contributions; and, (d) take the necessary steps to transfer grantees' contributions totaling $364,581 from its partner organization to ADF/Ghana.

ADF RESPONSE: We concur in part.

Discussion: ADF is developing a policy on community reinvestment grants to improve the performance of the mechanism, which may result in major changes to the implementation strategy. Since grantees' commitments to the community reinvestment fund are voluntary pledges for a third party beneficiary, enforcement options open to ADF are limited. One option is to suspend funding to the grantee or terminate the grant agreement. However, in too many cases this option conflicts with the development objective of the project and does not insure that the grantee will make the contribution. Another option is to assess the financial capabilities of the grantee to honor its pledges and adjust the pledges accordingly. ADF has found that this option leads to improvements in contributions in some cases. Since these options have proven to be ineffective or of limited effectiveness, ADF is reexamining the structure of the community reinvestment mechanism to improve its performance.

In Ghana, ADF is implementing an action plan that involves the following major actions: (a) transferring community reinvestment funds from the former partner to a custodian who will hold them in trust until a formal trust is establish according to Ghanaian law (the community reinvestment proceeds are community funds and thus cannot be held in trust by ADF); and, (b) establishing a formal trust with policies and procedures that is managed by Ghanaians. Once the trust is operational, it will have the legal and moral authority to enforce pledges.

We do not agree that the former partner organization should be required to reimburse the $69,694 distributed from the community reinvestment proceeds. The decision to make the distribution was not made by the former partner organization. Also, notwithstanding the informality of the distributions, the funds were donated to legitimate community development activities in accordance with the original intent of the public trust.

RECOMMENDATION NO. 18: We recommend that the African Development Foundation develop a clear action plan that addresses sustaining project activities after the African Development Foundation's support has ended.
ADF RESPONSE: We concur.

Discussion: ADF will issue guidelines for the development of a sustainability plan for each active project designed to have an economic impact. The guidelines will start with the selection of the project and extend to post-implementation. For economic development projects, the guidance for the preparation of the plans will include guidelines on assessing the viability of proposed projects, assessment of recurrent costs during the design phase, and monitoring of sustainability during implementation. In addition, ADF will require local audit firms to provide an opinion on a project's sustainability as an on-going concern as part of their audit report. In accordance with ADF Manual Section 633, six months prior to the expiration of a project ADF will conduct a pre-closeout site visit to assess the sustainability of the project and recommend remediation actions, as is appropriate. ADF has already commenced the pre-closeout and audit follow-up actions for ten expiring projects in Ghana.

The capacity building and pilot projects that are not intended to have an economic impact will be treated differently. Based on the pre-closeout site visit, ADF will determine if the project is viable and warrants additional funding. Those projects determined viable will include a sustainable plan in their design.

IG GHANA AUDIT
AUDIT REPORT NO. 7-ADF-08-00X-P
CORRECTIVE ACTIONS SCHEDULE

No.	OIG Recommendation	ADF Response	Corrective Action(s)	Corrective Action Completion Date
1	ADF determine the allowability of $202,100 in ineligible questioned costs and $127,836 in unsupported questioned costs and recover from the partner organization the amounts determined to be unallowable.	Concur.	ADF is reviewing the questioned costs with the former partner and will begin collection action by September 30, 2008.	December 31, 2008
2	ADF establish a plan to correct the internal control and compliance deficiencies discussed in the report. This will include at a minimum the use of monthly timesheets, completion and review of vehicle log books, approval of bank reconciliations, documentation of board of directors' meetings and liquidation of travel advances.	Concur. *	(a) Award a program cooperative agreement to a new organization to serve as ADF's partner. (b) Orient the new partner organization in internal control procedures and financial management policies and procedures and issue final master plan for ensuring compliance with internal control requirements.	(a) October 1, 2008 (b) October 15, 2008
3	ADF issue a request for proposals (a) to conduct a financial audit of its Ghana country representative office for the calendar year 2007 to assess whether ADF funds were used in compliance with ADF policies, and (b) to select a partner based on competitive process to comply with U.S. regulations.	Concur.*	(a) An audit firm on the USAID Office of Inspector General's (OIG) list of local audit firms completed the audit in August 2008. ADF must determine if the country representative used the Foundation's funds properly. (b) ADF has completed a competitive selection process and will award a cooperative agreement to a firm to serve as a partner for financial management.	a) September 30, 2008 (b) October 1, 2008
4	ADF take appropriate measures to sell or replace unused assets.	Concur.	Sell the unused equipment to another United States Government agency or to the public through a U.S. Embassy auction.	December 31, 2008

* ADF has already undertaken strong actions to improve internal control, financial management, monitoring and evaluation, review of partner audits, and coordination and cooperation within the Ghana field team.

IG GHANA AUDIT
AUDIT REPORT NO. 7-ADF-08-00X-P
CORRECTIVE ACTIONS SCHEDULE

No.	OIG Recommendation	ADF Response	Corrective Action(s)	Corrective Action Completion Date
5	ADF determine the allowability of questioned indirect costs totaling $182,866 and recover the Amounts determined to be unallowable from the partner organization.	Concur.	Reconcile the difference between the $129,000 reimbursement for indirect costs made by the former partner and the $182,866 of questioned costs identified in the report and collect what is due.	September 30, 2008
6	ADF amend its award documents to eliminate the use of indirect cost rates with ADF partner organizations and contact local accounting firms to conduct indirect cost rate audits for the other eight countries where indirect cost rates were used.	Concur in part.	Beginning the first quarter of Fiscal Year 2009, ADF will undertake the following actions: (a) require each partner organization with an indirect cost rate provision to engage a local accounting firm on the OIG's list of eligible firm to conduct an audit of the partner's indirect cost rate according to the U.S. Generally Accepted Government Auditing Standards(GAGAS); (b) eliminate the indirect cost provisions in those cooperative agreements that expire after September 30, 2008.	a) December 31, 2008 (b) September 30, 2008
7	ADF issue a bill for collection to its partner organization to recover $13,959 in audit fees charged to the award.	Concur.	The collection will be included in the ongoing closeout of the partner's cooperative agreement.	December 30, 2008
8	ADF require its internal auditor to review the audit reports on its partner organizations before the audit firms finalize their reports.	Concur.*	Amend the internal auditor's position description and ADF audit guidelines to include review of audit reports on partner organizations before they are finalized; and Incorporate this change into the partners' cooperative agreements.	October 1, 2008

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IG GHANA AUDIT
AUDIT REPORT NO. 7-ADF-08-00X-P
CORRECTIVE ACTIONS SCHEDULE

No.	OIG Recommendation	ADF Response	Corrective Action(s)	Corrective Action Completion Date
9	ADF comply with its grant agreement's standard provisions and issue specific guidance requiring its partner organization to submit its audit reports for review to the USAID Office of Inspector General and verify that the accounting firm is on the list of eligible firms.	Do not concur.	Amend the standard provisions to the partners' cooperative agreement to state the ADF internal auditor will review the partners' audits and ensure that only firms on the OIG's list of eligible audit firms conduct the audits and the audits will be performed in accordance with U.S. Generally Accepted Government Auditing Standards (GAGAS).	October 1, 2008
10	ADF/Ghana establish a monitoring and evaluation system. This will include at a minimum a control information checklist for each project implemented.	Concur.*	Based on recently developed project tracking and assessment tools, The ADF/Ghana team, work with the new partners, will finalize the monitoring and evaluation system and train staff in its use.	November 30, 2008
11	ADF issue clarifying guidance to improve coordination and cooperation between the regional office, the country representative office and the partner organization in Ghana and define clear lines of responsibility to avoid duplication of efforts and improve program implementation.	Concur.*	Issue guidelines that delineate the roles of the ADF field staff and partner organizations. [The new structure includes the following components: (a) partner for program management; and (b) partner for financial management. These organizations (and a small field staff reporting directly to the Regional Program Director) are managed by the Regional Program Director. There is a region-wide audit and financial management office located in Ghana reporting to the Washington audit office.]	October 15, 2008
12	ADF revise its performance indicators to reflect grantee outputs to adequately measure progress towards achieving objectives.	Concur in part	a)Instruct the ADF field staff and partner organizations in ADF's guidelines for selecting output indicators that measure progress towards achieving objectives. b)Revise guidelines for project review to ensure output targets are adequate to measure progress.	a) October 15, 2008 (b) September 15, 2008

* ADF has already undertaken strong actions to improve internal control, financial management, monitoring and evaluation, review of partner audits, and coordination and cooperation within the Ghana field team.

IG GHANA AUDIT
AUDIT REPORT NO. 7-ADF-08-00X-P
CORRECTIVE ACTIONS SCHEDULE

No.	OIG Recommendation	ADF Response	Corrective Action(s)	Corrective Action Completion Date
13	ADF define and delineate the responsibilities of its partner organization and its country representative office in Ghana, to include the verification and timeliness of grantees' progress reports to obtain reasonable assurance that the information is accurate and complete.	Concur. *	(a) Issue guidance that delineates the responsibilities of the Ghana partner organizations and ADF field staff state the program partner organization is responsible for assuring accuracy, completeness, and timeliness of grantee reports. (b) Update standard language in cooperative agreements and MS 631 to provide for reasonable assurance for the quality and completeness of progress reports.	October 15, 2008 September 15, 2008
14	ADF determine the allowability of $516,492 disbursed to grantees and recover the amounts determined to be unallowable.	Concur.	Convene a termination committee meeting to determine allowable costs and initiate debt recovery process in September 2008, and recover all unallowable costs.	December 31, 2008
15	Develop procedures to minimize the risks of misuse of funds and verify that assets are procured and used in compliance with African Development Foundation policies.	Concur.*	(a) Develop procedures and tools for financial monitoring of grantees and verify assets are procured and used according to ADF's policies. (b) Train partner organizations on the procedures and tools.	September 30, 2008 (b) October 31, 2008
16	ADF prepare an action plan for providing grantees with financial management training with specific implementation dates and assign specific responsibility to the partner organization to ensure that grantees adopt sound financial management practices.	Concur.*	The accounting/financial management partner in Ghana will develop specific action plans for each grantee to ensure they follow sound financial management practices	November 30, 2008

* ADF has already undertaken strong actions to improve internal control, financial management, monitoring and evaluation, review of partner audits, and coordination and cooperation within the Ghana field team.

IG GHANA AUDIT
AUDIT REPORT NO. 7-ADF-08-00X-P
CORRECTIVE ACTIONS SCHEDULE

No.	OIG Recommendation	ADF Response	Corrective Action(s)	Corrective Action Completion Date
17	ADF establish relevant implementing procedures to (a) ensure that the grantees make their required contributions to the community reinvestment fund, (b) establish a policy on the use of the community development trust fund, (c) refund the amount of $69,694 of unauthorized contributions and (d) take the necessary steps to transfer grantees' contributions totaling $364,581 from its partner organization to ADF/Ghana.	Concur in part.	(a) ADF is establishing an Agency-wide policy on the use of community investment funds. (b) ADF does not agree to collect the $69,694 in contributions from the former partner, since an ADF official initiated and authorized distribution of the funds and the distributions were for purposes originally intended by the community reinvestment mechanism. (c) ADF will undertake the following actions in Ghana: (i) transfer community reinvestment funds from the former partner to a custodian until the trust is established according to Ghanaian law; (ii) establish a formal trust that has the legal and moral authority to enforce pledges	(a) December 31, 2008 (b) October 31, 2008
18	ADF develop a clear action plan that addresses sustaining project activities after the African Development Foundation's support has ended	Concur.	Issue guidelines for the formulation of a sustainability plan for each active project designed to have an economic impact.	November 30, 2008

* ADF has already undertaken strong actions to improve internal control, financial management, monitoring and evaluation, review of partner audits, and coordination and cooperation within the Ghana field team.

ADF/GHANA QUESTIONED COSTS

	Item	Ineligible Costs	Unsupported Costs	Total Questioned Costs
Partner Organization	Salaries paid to a employee without proof of work	$	$11,436	$11,436
	Direct salaries in excess of budgeted allocation		31,015	31,015
	Unliquidated travel advances		61,937	61,937
	Unliquidated advance for orientation workshop		7,987	7,987
	Per diem and room & board duplicated for ADF workshop	1,206		1,206
	Tax refunds wrongly reimbursed to employees	311		311
	Unreasonable end of year bonuses	36,908		36,908
	Unused accounting software	4,343		4,343
	Biofrukta feasibility study (not ADF related)	365		365
	Housing allowance (not allowable OMB A-122)	15,434		15,434
	Employee severance pay		4,819	4,819
	Lack of invoice for staff retreat		3,160	3,160
	Refund of unused medical and educational benefits		1,422	1,422
	Provident fund improperly accounted for	12,014		12,014
	Provident fund contribution wrongly charged	627		627
	Board meetings related expenses		6,060	6,060
	Unused website development	634		634
	Procurement of used computers for prices of new ones	2,653		2,653
Country Representative	Inoperable satellite dishes	125,628		125,628
	Unjustified weekend travels	1,257		1,257
	Interest expense on rental advance	720		720
	Subtotal	**202,100**	**127,836**	**329,936**
Finding page 6	Overcharged indirect costs	182,866		182,866
Finding page 8	Audit costs for audits not meeting standards	13,959		13,959
Finding page 14	Indications of fraud by grantees	516,492		516,492
Finding page 18	Unauthorized trust fund payments		69,694	69,694
Total		**$915,417**	**$197,530**	**$1,112,947**

The following presents an explanation of the questioned costs.

Partner Organization

- One employee was paid a salary of $11,436 for the 3-month period January to March 2008, even though there was no evidence that the employee was working for ADF during this period. He was also paid a travel advance of $400 to conduct a field visit in October 2007 and the advance was never liquidated.

- Under the last cooperative agreement (No. 1690) with the partner organization, the budgeted amount for direct salaries was $50,843 for calendar year 2007. However, the partner organization expensed $82,420 which exceeded the budgeted amount by 62 percent. The grant agreement stated that the partner must obtain written approval from ADF for expenditures that exceed any line item by more than 15 percent. Yet, such written approval was not requested or obtained. Under cooperative agreement No. 1541 ending in April 2005, the amount of salaries exceeding budgeted expenditures amounted to $7,065. Hence, for both of these agreements, $31,015 of salary expenditures is questioned.

- During the period April 2004 to March 2008, 152 of 384 travel advances representing $61,937 were not liquidated by actual travel reports and the majority of the actual travel reports were incomplete and not adequately supported. The partner organization recorded these advances as expenses and did not have procedures in place to compare the actual travel with the travel advance. Also a driver claimed fuel and per diem to attend a colleague's funeral outside of Accra, Ghana.

- In March 2006, ADF organized a workshop to provide orientation to its new staff. An advance of $7,987 was provided to an ADF staff member but was never liquidated. Also, even though room and board was paid for by ADF, the staff member claimed per diem totaling $1,206.

- The partner organization's seven staff members charged ADF $311 for reimbursement of excess income taxes. The Government of Ghana reduced its income tax rates and the partner organization reimbursed its employees for the additional taxes deducted at source for the period January to March 2004.

- The partner's staff received both a 13th month bonus and an end of the year bonus in 2005 and 2006 totaling $36,908. However, the partner's policy was not clear or consistent regarding bonuses. Comparatively, the USAID mission in Accra, Ghana, provides only a 1-month bonus each year while ADF/Ghana's staff received two month bonuses each year.

- The partner organization had roughly 30 accounting transactions per month supporting the payment of salaries, utilities, communications and office supplies. In spite of this low level of transactions, and without using a proper bidding system, the partner organization procured an accounting system (Pastel) at a cost of $4,343. The software was used for a short period of time and then no longer used. We were told that the software was never reinstalled after a computer crashed, which did not seem reasonable in view of the amount spent on the software.

- The partner organization wrongly charged ADF $365 for a feasibility study that was not related to the ADF program. This cost was related to a consultancy that the partner organization was conducting for another organization.

- Housing allowances for the partner organization's staff totaling $15,434 were charged to ADF even though these costs were unallowable according to OMB Circular A-122.

- Expenses of $4,819 for an employee's severance pay and $3,160 for a staff workshop were not supported by adequate documentation.

- The ADF partner organization reimbursed its staff $1,422 for unclaimed educational and medical benefits which were not included in its administrative policy.

- ADF contributed 5 percent to a provident fund for the partner organization's personnel. Although the provident fund contributions were debited from ADF's bank account each month, the funds were not deposited in a trust fund on a regular basis and were not properly accounted for. Every year, the partner's staff members received a share of the provident funds including ADF's contribution. As of November 2007, when the partner organization finally established the provident fund with a financial institution, there was only a negligible amount available for transfer. The partner's provident fund policy did not require that an employee be vested and allowed for the withdrawal of 80 percent of the total contributions after 3 years of service. However, all contributions were withdrawn yearly which was contrary to the partner's policy and contrary to the essence of what a provident fund stands for in that it is supposed to be used upon termination of employment. Also, there were no records of individual employee contributions and we could not reconcile ADF's contributions with the funds deposited, the interest earned, and the amounts withdrawn by the partner's employees. Thus, ADF's share of provident fund contributions, representing 5 percent of basic salaries, and totaling $12,014 is questioned. Moreover, the partner charged ADF $627 as a contribution for staff that had left the organization instead of withdrawing funds from the provident fund account.

- The partner organization charged ADF $6,060 for transportation costs and per diem allowances of board members for attending board meetings. However, the partner organization had no record of these meetings having taken place to support these costs.

- In February 2007, the partner organization charged ADF $634 for the development of its website. However, as of April 2008, the partner organization did not have a website resulting in a waste of ADF funds.

- E. K. Agyei purchased two used Dell computers in February 2007 for $2,653, which is the price of buying new computers. The audit team noted that the computers were old and very used. The processor was Intel Pentium III which has been out of the market for almost 5 years. Also, one computer was not working and had broken almost 1 year ago. At least 13 field visits to the grantee by the partner organization's staff members had been conducted since January 2007 yet the partner organization had not reported this misuse of funds or taken any action to assist the grantee in getting the money back or getting replacement computers.

Country Representative Office

The audit team also found the following instances of noncompliance within the country representative office.

- ADF/Ghana purchased two satellite dishes for $125,628 in 2006. However, the satellites have not been installed correctly and as of May 2008 have not been used for an internet connection. Instead, ADF/Ghana used an internet service provider.

- While reviewing travel records, the audit team found that the country representative office conducted a field visit during two weekends, charging ADF $1,257 of travel allowances for himself and a driver, as well as lodging costs, at a rate higher than the per diem allowed, without describing in the travel reports the specific location and the purpose of the visits. Also, even though the area visited was located 250 kilometers from Accra, the mileage recorded for these two visits was 1,361 kilometers, a 36 percent increase.

- The country representative office charged ADF $720 as interest expense because the 6-month rental advance was paid 1 month late. Interest expense is unallowable according to OMB Circular A-122 and no supporting documentation for the computation of interest was provided.

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