OFFICE OF INSPECTOR GENERAL

FOLLOWUP AUDIT OF AWARDING AND MONITORING OF GRANTS BY THE AFRICAN DEVELOPMENT FOUNDATION

AUDIT REPORT NO. 7-ADF-08-006-P
JUNE 12, 2008

DAKAR, SENEGAL

June 12, 2008

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

SUBJECT: Followup Audit of the Awarding and Monitoring of Grants by the African Development Foundation (Report No. 7-ADF-08-006-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 entirety in appendix II of this report. Following the issuance of our draft report to you for comment, we combined former recommendation nos. 7, 8 and 9, recommendation nos. 13 and 14, and recommendation nos. 15 and 16, in order to reduce the number of recommendations and to simplify the audit follow-up process. The modifications were made to improve the clarity of the report and do not affect the actions that ADF needs to take.

The report includes 18 recommendations for your action. Based on your comments and the documentation provided, we consider that management decisions have been reached on all recommendations except for recommendation no. 17. A management decision for recommendation no. 17 can be recorded when ADF has developed a firm plan of action, with target dates, for implementing the recommendation. 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 Regional Inspector General/Dakar (RIG/Dakar) conducted this followup audit to determine whether the African Development Foundation (ADF) in Senegal took effective corrective actions with respect to 8 of the 11 recommendations of the audit titled *Audit of Awarding and Monitoring of Grants by the African Development Foundation,* Audit Report No. 9-ADF-03-005-P, issued February 28, 2003. (See page 2.)

ADF in Senegal took adequate measures to close two of eight recommendations, which addressed the periodic evaluation of performance indicators and the submission of an annual audit plan to the Office of Inspector General. However, ADF did not take sufficient action to implement the other six recommendations and thus only partially addressed the weaknesses found in the prior audit. (See page 4.)

The followup audit also disclosed that implementation of project activities was slow (page 5), that reported information on actual achievements was inaccurate or unsupported (page 8), that required financial audits were not conducted, (page 12) and that financial audit reports were not completed in accordance with accepted auditing standards. (See page 13.)

Four other issues arose during the course of the audit that require corrective action by ADF. First, several grantees suffered from weak financial management practices. (See page 16.) Second, some capital assets were not used for their intended purposes. (See page 17.) Third, indications of fraud involving ADF funds were not reported to the Office of the Inspector General. (See page 19.) And finally, some grantees did not comply with some of the terms of the agreement. (See page 21.)

This report contains 18 recommendations that will assist ADF in improving project implementation (see page 8), ensuring the quality of reported information on program accomplishments (see page 12) and ensuring that financial audits of grantees are conducted according to ADF's stated policies. (See pages 13 and 15.) In addition, the report recommends that ADF strengthen the financial management practices of its grantees (see page 17), ensure that grantees use capital assets for intended purposes (see page 18), report irregularities and allegations of fraud to the Office of Inspector General (OIG) (see page 21) and improve grantees' compliance with the terms of the agreement. (See page 23.)

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 no. 17. Our evaluation of management comments is provided on page 24. 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. One of ADF's primary goals is to enable the empowerment of the poor in Africa. ADF pursues this objective in part by providing grants to small enterprises that generate income and increase the economic security of families and communities. ADF also seeks to encourage economic development by providing capital, training, and other support. The grants are designed to increase the flow of investment capital to the poor. ADF provides grants of $250,000 or less to private and other nongovernmental entities in Africa to:

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

ADF currently operates in 18 African countries including Senegal. The ADF/Senegal program, established in 1986, is classified as a midsize program. The program focuses on small- and medium-sized enterprises, particularly projects with high export potential. At the end of the year 2007, ADF/Senegal's portfolio contained 10 active projects, of which 3 were 1-year organizational assistance grants and 7 were development assistance projects. During the period from October 1, 2005 until December 31, 2007, ADF disbursed $1.6 million to ADF/Senegal in program activities.

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

In FY 2002, the Office of Inspector General's (OIG) Performance Audit Division conducted an audit to determine whether ADF had (1) evaluated and selected proposals for funding in accordance with ADF policies and procedures, (2) implemented a system to monitor the progress of grantee activities, and (3) implemented a system to audit funds provided to grantees. The results of the audit were presented in the report *Audit of Awarding and Monitoring of Grants by the African Development Foundation* (Report No. 9-ADF-03-005-P) dated February 28, 2003.

In that report, OIG concluded that ADF (1) did not always evaluate and select grant proposals for funding in accordance with its internal policies and procedures, (2) did not implement an effective system to monitor its projects and obtain project results, (3) did not implement an effective system to audit funds provided to grantees, and (4) did not have a process to ensure that all significant recommendations were tracked and implemented.

OIG made 11 recommendations to correct these deficiencies. ADF concurred with the recommendations and proposed specific actions to remedy the deficiencies. At the time the final report was issued in February 2003, management decisions were reached on all recommendations, but final action to close the recommendations had not been taken. In

March 2007 ADF submitted documentation of final actions and the recommendations were closed.

AUDIT OBJECTIVE

The Regional Inspector General/Dakar (RIG/Dakar) performed this audit to answer the following question:

- Did ADF implement the recommendations from Audit Report 9-ADF-03-005-P in Dakar, Senegal and were the actions taken by ADF/Senegal effective?

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

AUDIT FINDINGS

Of the eight recommendations covered by this audit, ADF took adequate measures in Senegal to fully implement two of them. For the other six, ADF/Senegal did not fully implement the recommendations and some of the same concerns found during the first audit still remain.

The following discuss the two recommendations that were fully implemented. Recommendation no. 4 of the previous audit report recommended that ADF establish policies requiring periodic evaluation of the performance indicators developed for each project to ensure that all indicators are necessary and relevant. ADF agreed and revised its monitoring and evaluation policy to ensure that performance indicators are reviewed during portfolio reviews[1]. The audit found that performance indicators were streamlined and were more directly related to project activities.

Women processing millet manually at ADF's Ndiakhere project in St-Louis, Senegal. Photo taken by an OIG auditor on January 15, 2008.

Recommendation no. 7 recommended that ADF provide its annual audit plan to the Office of Inspector General (OIG) by October 1 of each fiscal year (FY). In its response to the report, ADF agreed to submit its audit plan. The followup audit found that this recommendation had been fully implemented. Specifically, for FY 2007 and FY 2008, ADF prepared and sent its annual audit plan to OIG within the agreed timeframe.

Although recommendation nos. 4 and 7 were fully implemented by ADF, the actions taken in response to recommendation nos. 3, 5, 6, 8, 9 and 10 were not fully implemented and only partially addressed the weaknesses found in the prior audit. The following sections of this audit report discuss these weaknesses and identify opportunities to improve project implementation and achievement of program objectives, and to ensure that funds are used for intended purposes.

[1] Portfolio reviews are conducted by ADF/Washington portfolio managers to assess the status of grant projects.

Implementation of Projects Was Slow

Summary: Recommendation no. 3 from the prior audit report recommended that ADF strengthen its oversight to improve project implementation. However, this audit found that ADF project implementation was slow and that no related remediation plans were developed. The slow implementation of projects was due to a number of factors including unrealistic expectations, a lack of monitoring, inappropriate or unused project equipment, and late funding. As a result of slow implementation, ADF projects did not meet their objectives.

The previous audit report found that ADF needed to strengthen its oversight of projects to identify in a timely manner any problems associated with project implementation, remediate the problems, and, if warranted, terminate project grants. The previous report also found that there were no scheduled project implementation milestones that could trigger a full review of information on project implementation and possibly lead to a decision to terminate a project. To correct these deficiencies, recommendation no. 3 of the previous audit report recommended that ADF revise its policies on evaluating the grantees' progress towards fulfilling grant objectives, facilitate prompt interventions in order to remediate problems in project implementation and conduct and document portfolio reviews.

The Bok Khalaat fish processing project had not achieved any of its project outputs such has complying with safety and health measures to export dried fish, developing a business plan and establishing a financial management system. The project had no record-keeping system to speak of, yet no remediation plan had been developed. Photo taken by an OIG auditor on January 17, 2008, in St-Louis, Senegal.

Subsequent to the previous audit, ADF revised its policies on project oversight and developed procedures on developing remediation plans and conducting portfolio reviews. However, this followup audit found that during FY 2007, no steps were taken to identify and remediate problems associated with project implementation, nor were any grants of failing projects terminated.

Although some projects made progress, none of the 10 active projects achieved all of their planned results. Only 8 of 50 expected results that were documented and verified were achieved as shown in table 1.

Table 1: FY 2007 Achievement of Planned Results

Project	Planned Results	Results Tested	Results Achieved
Aboul Abass	5	2	0
Agriconcept	7	4	0
Bok Khalaat	10	10	0
Gabastri	6	5	0
La Maison du Karite	8	4	1
Maria Distribution	6	5	1
Ndiakhere	6	6	2
Tasdak	4	4	1
La Vivriere	6	4	1
WAW Vegetable	7	6	2
Total	65	50	8

The most important factors contributing to the problematic implementation of the projects included the following:

Unrealistic expectations — For four of seven development projects reviewed, ADF had not established reasonable expectations for production, sales and net profit. Expectations were set using unsupported data that overestimated the potential profitability and sustainability of the projects. Many grantees did not have adequate documentation supporting baseline data and had unrealistic targets. For example, during the life of a project, Ndiakhere, a cereal producer, was to have increased production levels from 110 tons to 696 tons (a multiple of 6) and net profit from $2,600 to $139,000 (a multiple of 54). Another grantee, Aboul Abass, a laundry service, was to have increased production from 29,872 to 419,447 pieces of cleaned clothes (a multiple of 14) and net profit from $4,700 to $145,300 (a multiple of 31).

The lack of a monitoring system — ADF Policy 630 states that ADF and its partners[2] will monitor the activities and performance of all projects to ensure that projects are proceeding according to plan and to assist the grantees in identifying and addressing problems or issues that arise during the course of project implementation. However, ADF/Senegal and its partner did not implement an effective system to monitor project activities and record project achievements. A monitoring and evaluation plan was not developed to determine which activities should be monitored and how the activities should be monitored, including the number and frequency of site visits to be performed by ADF or the partners. Well-planned and documented visits would have helped ADF identify implementation problems and take remedial action. For example, West African WAGS Sea Vegetable (WAW Vegetable), a 1-year grant, was expected to improve financial management and develop a business plan. The project achieved two of its six planned results that we tested, which were to hire an accountant and a business manager both funded by ADF. However, neither the financial system nor the business

[2] ADF uses local development agencies entitled partner or partner organization to provide support to grassroots entities. In Senegal, the partner Consultants Associes was responsible to provide technical assistance and monitoring oversight to existing ADF projects and aid new project reviews.

plan had been developed. Also, La Maison du Karite, a 1-year grant, achieved one of its four tested outputs but failed to produce the business plan or develop an adequate management system, yet ADF disbursed funding as late as December 2007 without evaluating the project and the capability of the grantee. These deficiencies could have been detected and remedial actions taken if monitoring visits were conducted and the project evaluated.

No remediation plans — ADF Policy 632 states that a remediation plan is required when a project is falling significantly short of its objectives. However, ADF had not developed a remediation plan for any of its failing projects. Two failing projects Aboul Abass and Gabastri, were planning to make a major shift in project activities because their current project activities were not profitable. Aboul Abass was evaluating moving its laundry equipment from St-Louis to Mbourg (a 2-hour drive). Gabastri had reduced its staff from 11 to 7, and sales were limited to two products that were outdated and facing severe competition from China. Gabastri was planning to shift from producing door hinges to raising chickens. However, no remediation plan had been developed for either project.

An employee cutting soap by hand without gloves or clean equipment. La Maison du Karite, a cosmetic shea butter project had not improved its production processes because the new mill funded by ADF was not being used. The small cosmetic workshop had no running water and lacked simple hygienic standards. Photo taken by an OIG auditor in Dakar, Senegal on January 3, 2008.

Late funding — Several grantees mentioned that the late disbursement of funds from ADF to the grantees impeded project activities. Some project activities were seasonal and the timing of the receipt of funding was important in order for the grantees to take advantage of low prices of raw materials. For example, Maria Distribution, a juice maker, needed to buy its fruits when prices were low and freeze them. If the funds are delayed, supplies may not be available or the prices may be high, thus reducing the chances that the project will be profitable and fulfill its objectives.

Unused equipment —Most grantees had either not used ADF-funded equipment or had limited use for the equipment. (See finding on page 17.)

A women filling up bottles of syrup by hand at Maria Distribution, a juice maker. The grantee had not yet ordered its new equipment because the new processing unit was under construction. The construction should have been completed by September 2006 according to the agreement. Photo taken by an OIG auditor on January 10, 2008 in Dakar, Senegal.

Vacant positions — ADF/Senegal has been without a partner organization since July 2007 and without a country representative since December 2007. The regional coordinator provided support to ADF/Senegal but her assistance has been limited by the fact that other countries in the region were also without country representatives or partners. Also, ADF/Senegal did not have a position responsible for monitoring and coordinating the activities of the partner organization. As a result of these difficulties ADF could not measure the efficiency and effectiveness of its program in Senegal, reliably determine if projects were meeting objectives, or improve project implementation.

ADF has implemented several activities aimed at speeding up project implementation, including meetings with grantees and conducting portfolio reviews. ADF-supported activities have been constructive but were not of sufficient magnitude to have a significant impact on project implementation. This audit makes the following recommendations to help ensure the early identification of problems and the rapid remediation, or, when warranted, the prompt termination of grants.

> *Recommendation No. 1: We recommend that the African Development Foundation (a) set objectives with realistic expectations, (b) develop remediation plans for underperforming projects and, as warranted, terminate nonperforming grants, and (c) develop a monitoring and evaluation plan that includes evaluating each grantee's progress toward meeting its objectives to facilitate timely interventions to improve project results.*

> *Recommendation No. 2: We recommend that the African Development Foundation take appropriate measures to disburse adequate funds to grantees in a timely manner.*

> *Recommendation No. 3: We recommend that the African Development Foundation take appropriate measures to fill the positions left vacant in Senegal in order to provide proper project oversight and monitoring.*

Grantees' Reporting Should Be Improved

Summary: The previous audit report found that ADF officials did not always review the grantees' progress reports with sufficient care to ensure that reported data were accurate, complete, and useful. In its response to that audit, ADF agreed to continue to provide training to the grantees but also to simplify and revise the report format to facilitate reporting by grantees. However, the followup audit found that ADF's grantees' reporting was inaccurate, incomplete and unsupported. In 68 of the 84 results reviewed (81 percent), information on actual results reported by grantees was inaccurate or unsupported. These problems occurred because ADF staff members or the partner organization did not verify the grantees' information and lacked clear guidance regarding their responsibility to systematically verify performance data and to document the results of these efforts. As a result, ADF could not reliably determine whether grantees were meeting their objectives or assess the impact of their program in Senegal.

The prior audit report found that although grantees submitted the required progress reports, ADF officials did not always review the reports with sufficient care to ensure that the reported data were accurate, complete, and useful. Consequently, ADF did not always receive accurate and complete information about project progress and could not reliably determine if projects were meeting objectives and would become sustainable. Recommendation no. 5 of the previous report recommended that ADF provide training to grantees to maintain and report performance data. In its response to the recommendation, ADF agreed to continue providing training to grantees. In addition, ADF agreed to simplify the report, continuously assess the grantees' performance reporting through a review of progress reports and site visits, and make recommendations on a course of action when reporting was not satisfactory.

During this followup audit, RIG/Dakar found that progress reports submitted by grantees to ADF did not always include accurate, complete, and supported information that described progress achieved during the reporting period. Some grantees were confused by the formats of the reports, did not understand some of the report sections, and did not know what information had to be reported.

According to ADF Manual's Section 630, the ADF country representative will verify the grantees' reporting on performance targets to ensure that the reports are accurate and complete. It also states that the partner organization will verify grantees' reporting on performance targets to ensure that reports are accurate and complete.

ADF's project, Gabastri, a door and window hinges maker reported producing 2,715 hinges for the quarter ending on September 30, 2007. However, based on supporting documentation, the grantee had produced 23,040 hinges. Photo taken by an OIG auditor in Dakar, Senegal on January 9, 2008.

ADF required all grantees to submit quarterly progress reports that included information, on the current period as well as cumulative progress for the FY for all performance indicators. The quarterly reports also included a section on the analysis of the performance indicators; a timeframe, description, and analysis of project activities realized during the period; and a section on risks and problems. A review of the quarterly progress reports for FY 2007 found that the information reported was not accurate and supported. Also, problems and issues had not been reported and did not provide a complete picture on whether or not the grantees were progressing toward achieving project objectives. While visiting all active grantee project sites, the audit team compared information included in the ADF progress reports to supporting documentation. In 68 of the 84 results reviewed (81 percent), information on actual results reported by grantees were inaccurate or unsupported, as shown in table 2 below.

Table 2: Review of Results Reported by Grantees

Grantee	Results Tested	Results Accurate	Results Inaccurate	Results Unsupported
Aboul Abass	10	0	5	5
Agriconcept	9	1	1	7
Bok Khalaat	7	0	7	0
Gabastri	10	1	8	1
La Maison du Karite	8	0	4	4
Maria Distribution	10	7	3	0
Ndiakhere	10	2	8	0
Tasdak	8	3	4	1
La Vivriere	8	1	3	4
WAW Vegetable	4	1	1	2
Total	84	16	44	24

Following are a few specific examples of inaccurate or incomplete results. (Appendix III on page 44 provides additional examples.)

- The progress reports for the WAW Vegetable project included performance indicators that were not required by the grant agreement, such as production of tons of seaweed, net income and total sales. Also, the audit team could not find supporting documentation for the net income of $2,000 reported for the quarter ending September 30, 2007, because not all expenses were recorded and sales were not properly accounted for. WAW reported generating sales of $12,000 for the quarter ending September 30, 2007. However, the supporting documentation indicated that sales amounted to $5,700. The progress reports did not include information on the outputs defined in the grant agreement. The reports did not disclose problems regarding the fact that sales were lower than expected.

- The Bok Khalaat fish-processing project, did not report performance data for FY 2007, relevant information regarding the progress made toward achieving its objectives or problems with project implementation. Moreover, the report did not include that the building being constructed did not comply with ADF's grant agreement specifications. (See finding on pages 21 and 22.)

Bok Khalaat's fish processing project did not include information on its problems with project implementation. Photo taken by an OIG auditor on January 16, 2008 in St-Louis, Senegal.

- Tasdak, a chicken slaughter house, reported a production of 17 tons of chicken for the second quarter of FY 2007 and 21 tons for the third quarter. However, a review of production records showed that production was 12 tons and 9 tons, respectively. The progress reports did not mention that after 3 1/2 years, the new slaughter house had not been constructed and no financial management system was in place.

Three and a half years after the project was awarded, Tasdak has not yet built a new plant for poultry processing. The current poultry processing unit has no running water and does not meet the hygiene standards of the Ministry of Public Health. The project is still using their own plucking machine because the machine funded by ADF is not cost effective. Photo taken by an OIG auditor on January 8, 2008.

ADF/Senegal was aware that some grantees' reports were not accurate. Central to the reasons why reported results were inaccurate was that ADF/Senegal and the partner did not always provide effective guidance to the grantees and did not periodically validate reported results. The problems described above are symptomatic of the grantees not having the capacity to measure and report on progress accurately. The grantees were negatively affected by a lack of effective guidance and onsite mentoring and by the fact that neither ADF/Senegal nor the partner measured the validity of the reported results during field visits. Although ADF provided a data collection tool to the grantees, it was not properly utilized. The grantees received one training session on how to complete ADF quarterly reports at the time of project inception. However, no refresher training or onsite mentoring were provided. During the audit team's visits, most grantees reported that they did not know what to include under some indicators. Although ADF and the partner conducted site visits, they did not verify reported data and discover that the grantees were reporting data that were inaccurate and lacked supporting documentation.

Prior to June 2007, ADF relied on its partner for monitoring the grantees and validating reported information. However, the partner was not aware that it had to verify the information and its contract and terms of reference did not include any responsibilities in terms of validating grantees information. In turn, ADF was under the impression that their partner was verifying the information reported because it was required by its policy. ADF/Senegal had limited staff for monitoring the grantees and limited budget for travel to projects. In addition, at the time of the January 2008 audit ADF/Senegal was without a country representative or partner organization to provide oversight and monitoring. Moreover, because several ADF offices in Africa were also lacking human resources, the regional director could not provide the necessary assistance. To fill the vacancies in Senegal, ADF published a request for applications in mid-February.

Without a review of performance data submitted by its grantees, ADF could not reliably determine whether grantees were achieving the reported results and meeting objectives and becoming sustainable. Further, because the grantees did not always have records supporting their progress reports, reported results were often difficult to verify. Finally, progress reports submitted to ADF were of limited value in assessing the implementation of the projects and increase the probability of ADF making funding and programmatic decisions based on incorrect information. To correct the above deficiencies, this audit makes the following recommendations.

Recommendation No 4: We recommend that the African Development Foundation provide its grantees with regular training and guidance so that grantees accurately report on their performance and maintain supporting documentation to validate results.

Recommendation No 5: We recommend that the African Development Foundation/Senegal develop a monitoring plan so that its partner will regularly validate the quality of data, including supporting documentation, submitted by all grantees.

Recommendation No 6: We recommend that the African Development Foundation define the responsibilities of its partner to include the verification of the quality and completeness of progress reports.

Audits of Grantees Not Completed

Summary: The prior audit noted that ADF did not conduct audits of the funds provided to the local partners and grantees, in accordance with its policy. In response to the audit's recommendations, ADF agreed to include partner organizations in its annual audit plan and conduct audits of grantees according to its policy. However, the partner organization and two grantees had not been included in the annual audit plans for FYs 2007 or 2008. This occurred because of a lack of oversight by ADF/Washington and ADF/Senegal. As a result, audits of the partner organization and two grantees had not been performed and ADF has limited assurance that the funds have been used for intended purposes. This can also potentially lead to fraud, waste, and abuse.

The prior audit report noted that contrary to ADF's policy, no audits had been conducted on grantees and partner organizations. In this regard, recommendation no. 6 recommended that ADF ensure that, at a minimum, all grants that exceed the threshold are audited at an appropriate time during the grant life cycle. The prior audit also recommended (recommendation no. 9) that ADF develop procedures to ensure that audits of partner organizations are included in the ADF's annual audit plan. In response to the recommendations, ADF agreed to develop procedures to include partner organizations in its annual audit plans and to include each grant in the audit universe.

During this followup audit, however, RIG/Dakar found that the partner organization in Senegal and two grants had not been included in ADF FYs 2007 and 2008 audit plans, and thus had not been audited. Moreover, for three grants audited in FYs 2006 and 2007, the final reports had not yet been finalized and issued. (See finding on page 13.) ADF's policy states that all partner organizations are subject to annual independent financial statement audits in compliance with their agreement. It also states that ADF sets the audit threshold at $50,000. In addition, the grantee needs to have received 40 percent or more of the total expected budget.

According to the partner's grant agreement, the partner shall have an annual audit conducted according to the U. S. Government auditing standards. Consultants Associés, ADF/Senegal's partner organization, worked for ADF for 2 years, from June 2005 to June 2007. Although its contract was terminated as a result of its refusal to provide financial records as required by the agreement, no audit had been performed. In addition, two grants that require an audit according to ADF policies had not been included in its audit plans and have not been audited. The two grantees, La Maison du Karite and Aboul Abass, have not achieved their objectives. Both were having serious implementation problems and were lacking an adequate financial management system. Both projects have been unable to provide the audit team supporting documentation for some reported results.

These audits were not conducted because of a lack of oversight by ADF/Washington and ADF/Senegal. Also, even though the country representative scope of work included a section "grant audit followup and verification*",* it did not include specific guidance to ensure that all grants were audited according to the policy. The country representative understood that ADF/Washington was responsible for the audits and that he should not interfere with the process unless specifically requested by ADF/Washington. In the absence of financial audits, 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. This also created vulnerabilities to fraud, waste, and abuse. To ensure compliance with ADF policy this audit makes the following recommendation.

Recommendation No. 7: We recommend that the African Development Foundation (a) clearly assign responsibilities to its country representative to ensure that audits of partner organization and grantees are conducted in accordance with its policy and U.S. Government auditing standards and (b) amend its audit plan to conduct an audit of Consultants Associés, La Maison du Karite and Aboul Abass in FY 2008.

Audits Need to Comply with Appropriate Auditing Standards

Summary: In response to the prior audit, ADF agreed to establish specific policies and procedures for an audit quality control program to ensure that audits are completed in accordance with ADF guidance and draft reports are timely completed. However, the followup audit found that no quality control review had been performed, and the audit reports did not comply with appropriate auditing standards. This occurred because ADF's Finance Division did not conduct quality control reviews for the audits in Senegal or monitor the audit work to ensure that audits were completed in accordance with ADF policy. In the absence of final 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.

The prior audit noted that ADF did not perform audits according to its policy and did not implement procedures to review the quality of work performed by local audit firms to ensure that audits were completed and performed in accordance with ADF guidance and auditing standards. In response to the prior audit's recommendation nos. 8 and 10, ADF issued revised policies and procedures for its quality control program and agreed to ensure that audits are conducted in accordance with ADF requirements and appropriate auditing standards. However, this followup audit found that ADF's Finance Division had not performed quality control reviews for the three audits conducted in Senegal, and some of the weaknesses previously found continued to exist.

ADF's Field Audit Guidelines for Grants and Cooperative Agreements state that ADF funds provided to nongovernmental recipients are to be audited in accordance with U.S. Government auditing standards and the ADF Guidelines. It also states that the 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 the Guidelines. Moreover, the ADF Task Orders with the local audit firm state that the audits will be conducted in accordance with U.S. Government auditing standards.

Although, ADF has developed as part of its Guidelines an audit report quality control checklist and an audit work paper quality control checklist, these checklists were not completed to ensure that the audits were conducted in accordance with appropriate standards. The checklists were not completed because the responsibility of completing them was not given to the audit firm, the partner organization, or the ADF country representative. According to ADF policy, the checklist had to be completed on a sample basis by the Finance Division in Washington.

As a result, three audits performed by a local public accounting firm were not completed in a timely manner or according to ADF Guidelines and U.S. Government auditing standards. A review of the draft audit reports found that the reports had the following deficiencies:

- Audit findings that involved deficiencies in internal control or violations of provisions of grant agreements were not developed with all the elements of a finding (i.e., criteria, condition, cause and effect).

- Questioned costs resulting from instances of noncompliance were not included as a finding in the report of compliance.

- Violations of agreement terms regarding payment of local taxes, social security taxes, and compliance with grantees' contribution to ADF trust fund, were not reported in the report of compliance. (See finding on page 21.)

- The unexplained difference in the cash balance of $13,348 was not included as an unsupported questioned item.

- The notes to the Fund Accountability Statement did not briefly describe the questioned costs. The questioned costs were reported in a management letter.

- The draft reports did not include a summary of results, nor the scope and objectives of the audits.

- Two audit reports did not include management comments. The grantees did not receive the audit report or were not invited to provide comments.

In addition, these draft audit reports had not been timely completed. ADF Task Orders 2005-27 and 2007-18 specified that the final reports would be completed by October 2005 for the first task order and by August 2007 for the second task order. However, as of January 2008, the final reports had not been issued.

The lack of compliance with the appropriate standards was mainly due to the lack of a quality control program for the audits, as well as a lack of communication and monitoring by ADF/Washington and ADF/Senegal. The audit firm stated that it was waiting for ADF/Washington's comments prior to finalizing the reports. Since no comments had been received, the draft reports were still pending. The audit team was informed that ADF/Washington finally sent comments regarding the Diocko grantee audit to the accounting firm at the end of January 2008, 24 months after the draft report was completed. Also, ADF/Washington did not contact the accounting firm to discuss the status of audit work or ensure that all work was completed and that findings were appropriately supported. ADF/Senegal officials did not want to interfere in the audit process and were not requested by ADF/Washington to follow-up on the completion of the audit reports. According to ADF Guidelines, the auditors will finalize the audit report after incorporating grantee responses into the draft report within 30 days and send it to ADF/Washington for review. According to ADF policy, ADF/Washington is not required to review the draft report and provide comments before the accounting firm finalizes the report. Therefore, according to its policy, ADF/Washington could not verify that the audit reports comply with appropriate standards.

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. 8: We recommend that the African Development Foundation modify its audit guidelines to require that draft audit reports be reviewed by the Foundation before the audit firm finalizes the audit report to ensure compliance with appropriate standards.

Recommendation No. 9: We recommend that the African Development Foundation include in the country representative scope of work the responsibilities to (a) monitor the audits of all grantees and (b) complete the two quality control checklists for each audit to ensure that audits are completed in a timely manner and in accordance with its requirements and appropriate auditing standards.

Recommendation No. 10: We recommend that the African Development Foundation require the local accounting firm to finalize and issue the three draft audit reports pending according to appropriate standards.

OTHER ISSUES NOTED DURING THE AUDIT

During the course of the audit, four other matters that require corrective action by ADF came to the audit team's attention. Specifically, several grantees suffered from weak financial management practices, capital assets were not used for intended purposes, an indication of suspected fraud involving ADF funds was not reported to the Office of Inspector General (OIG), and several grantees did not comply with agreement terms. These issues are discussed in detail in the following pages.

Several Grantees Suffered From Weak Financial Management Practices

Summary: According to the ADF grant documents, grantees shall establish a financial management system to produce monthly profit and loss statements. Only one of the grantees visited had an adequate financial management system. This occurred because the grantees were not qualified or properly trained on financial management practices. As a result, grantees were not able to produce the monthly profit and loss statements and ADF could not reliably determine if projects were profitable and sustainable. Poor financial management practices can potentially lead to fraud, waste, and abuse.

According to 9 of 10 ADF agreements, grantees should increase their management capacity, develop and implement accounting and financial procedures, and produce monthly profit and loss statements. An accounting system usually provides necessary documentation to allow for the verification of transactions, facilitate timely preparation of disbursement requests, and provide information on the profitability of the project. However, 9 of the 10 grantees visited did not have a financial management system to produce monthly profit and loss statements and supporting documentation for the recorded transactions.

A few specific examples of financial management weaknesses follow. (Appendix III on page 44 provides additional examples.)

- La Maison du Karite, a project approved in September 2006, had a poor record-keeping system and could not provide supporting documentation for the profit and loss reported. Inventory was not conducted in the three retail stores to properly account for its products. Supporting documents for quarterly ADF liquidations were missing, and expenses were recorded for items that were not in the approved budget.

- Tasdak, a project awarded in 2004, had no computerized system until July 2007, when a new accountant was hired. Additionally, the project had not been able to produce monthly profit and loss statements.

- Aboul Abass, a grant awarded in September 2004, had a poor record-keeping system and had no general ledger or records of transactions to produce profit and loss statements. No payroll records existed, and only a few expenses were recorded in the profit and loss statements.

Grantees were experiencing financial management weaknesses because their staffs were not qualified and had not received formal financial management training. ADF-appointed accountants were only marginally qualified to perform their duties. Although 9 of the 10 grant agreements had budgeted for training, only two projects had conducted any training as of December 2007. ADF's scope of work for its partner organization requires a partner to assist grantees in maintaining sound financial management practices. However, all of the grantees interviewed said that the partner organization did not provide them with technical assistance on financial management practices. Weak financial management practices followed by grantees can result in disallowances or delays in receiving ADF funds for project activities. Weak financial management practices may also create vulnerabilities to fraud, waste, and abuse. To correct these deficiencies, this audit makes the following recommendation.

Recommendation No 11: We recommend that the African Development Foundation require its partner organization to provide grantees financial management training to prepare fairly stated and supported monthly profit and loss statements.

Capital Assets Not Properly Used for Intended Purposes

Summary: During our visits to grantee project sites, the audit team found that seven of eight projects had not used ADF-funded capital assets for their intended purposes. The projects had never used the equipment or had limited use for the equipment. This failing was due to a lack of proper technical assistance during project development and implementation. Also, the grantees did not have sufficient information or training on the equipment to make appropriate decisions regarding the choice or use of the equipment. As a result, funds were wasted and were not available for other uses such as to assist grantees in increasing their production outputs and achieving project objectives.

During visits to the grantees, the audit team found that ADF assistance for capital assets had not been used for intended purposes. Among the 10 active projects visited, ADF had purchased equipment for 8 projects. Among the eight projects, only one grantee was using ADF equipment for intended purposes. The other seven grantees either had not used ADF-funded equipment or had limited use for the equipment.

Following are a few examples of assets not being used for intended purposes. (Additional examples are provided in Appendix III on page 45.)

- As of January 2008, Agriconcept had not received the mechanical bean cutter ordered and paid for in October 2006 by ADF/Washington. (See finding on indication of potential fraud on page 19)

- Tasdak had never used the ADF-funded feather plucker because it was expensive to run and required 130 rubber fingers, which were not available in Senegal. Tasdak also said that the machine cost too much to operate in view of the small number of chickens it needed to pluck at one time. The current plucker requires 30 fingers.

Unused chicken plucker at Tasdak's slaughter house project in Dakar, Senegal. Photo taken by an OIG auditor on January 8, 2008.

- Ndiakhere had never used the dryer the project provided and was no longer using the two ovens funded by ADF. The dryer was consuming too much electricity and drying only a limited amount of mill. The grantee preferred drying the mill under the sun. The ovens were also too expensive to run because they were consuming too much gas, so the grantee reverted back to using the ovens it had used prior to the project.

At the Ndiakhere project, two women cooking couscous in the traditional manner because the two ovens funded by ADF were no longer used. The ovens were not cost effective and had no protective wire or grille. Photograph taken in St-Louis, Senegal by an OIG auditor on January 15, 2008.

These problems occurred because the partner organization that had suggested the equipment was not responsive to the grantees' needs and did not ensure that the grantees received necessary technical assistance for the procurement and use of resources. Also, the grantees did not have sufficient information about the equipment to make a decision on the choice of equipment. According to ADF Manual 630, monitoring is "a quality assurance process to ensure the effective use of resources provided by the Foundation." However, ADF did not evaluate whether the equipment was needed, used appropriate technology, was cost-effective, and whether spare parts were available in Senegal. These factors should have been taken into consideration prior to ordering the equipment. As a result, funds were wasted and were not available for other uses such as to assist grantees in increasing their production outputs and achieving project objectives. Moreover, capital assets were left idle and lost resale value. To correct these deficiencies, this audit makes the following recommendations.

Recommendation No. 12: We recommend that the African Development

Foundation review and evaluate the need and appropriateness of all project-funded equipment in Senegal and take appropriate measures to sell or transfer grantees' unused equipment.

Recommendation No. 13: We recommend that the African Development Foundation require the partner organization to provide technical assistance to assist grantees in the procurement of appropriate equipment.

Indications of Fraud Not Reported to the Office Of Inspector General

Summary: According to ADF and Government Accountability Office guidance, when there is reason to suspect that an illegal act has occurred or that a payment contains fraudulent information, the auditors must refer the matter to the ADF Finance Division and USAID OIG. The audit found that one ADF grantee had not yet received a $60,000 mechanical bean-cutter more than 15 months after it was paid for by ADF/Washington. The machine had not been purchased according to the terms of the agreement because there was an apparent conflict of interest as the project's managing director was also the supplier of the equipment. In addition, based on a review of documentation, the OIG auditors found irregularities and documents containing apparent suspicious information regarding expenditures amounting to an additional $60,000. This occurred because the audit firm was not aware of the requirements for passing on information relating to indications of fraud to the USAID/OIG and because ADF did not properly evaluate the funding requests submitted by the grantee. If ADF/Washington and the OIG are not notified of allegations, a thorough investigation of possible fraud cannot be made, and corrective actions may not be taken, and further losses may occur.

In accordance with U.S. Government auditing standards, when there is reason to suspect that an illegal act has occurred or that a payment contains fraudulent information, this information must be reported to the USAID/Office of Inspector General, the investigatory authorities of ADF. According to the ADF Field Audit Guidelines for Grants and Cooperative Agreements (ADF Guidelines) any evidence of irregularities should be reported to ADF/Washington Director, Finance Division.

The audit firm responsible for conducting an audit of ADF grantee Agriconcept, reported that the grantee had not received a mechanical bean-cutter procured with ADF funding for about $60,000. The audit firm's review of the disbursement documentation concerning payment for this equipment showed an apparent conflict of interest between the grantee and the supplier. The ADF bank transfer was made in favor of the managing director of Agriconcept. In fact, the project's managing director was also the founder and director of Agriconcept's main supplier, from whom Agriconcept purchased the mechanical bean-cutter and other products. The mechanical bean-cutter was paid for directly by ADF/Washington on October 20, 2006. At the time of the audit team's visit to Agriconcept, on January 30, 2008 —15 months after the funds had been disbursed — the equipment had not been delivered to the Agriconcept project in Senegal. In a discussion with the managing director in January 2008, he confirmed that the equipment was still in Belgium because it was being assembled. He did not know that this was a conflict of interest that had to be brought to the attention of ADF. Responsibilities concerning conflicts of interest were included in the standard provisions, which are an integral part of the ADF grant agreement with Agriconcept. It should be noted that the provisions were written in English and the grantee could not read English.

According to ADF Standard Provisions, all procurement transactions over $10,000 shall be conducted in a manner to provide open and free competition. It also states that no employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by U.S. Government funds if a real or apparent conflict of interest would be involved. In addition, 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.

The audit found that the pro forma invoices submitted by Agriconcept supporting the funding request for the mechanical bean-cutter had been modified and that there was an apparent conflict of interest in selecting the supplier. This transaction had not been conducted as per the agreement's terms and appropriate guidance. This occurred because ADF had processed the payment without proper evaluation and without verifying the authenticity of the three bidders.

Further audit research found that the supplier's Website is listed as a supplier of scales "balances and bascules" and there was no mention that the supplier produced equipment or seeds, products that Agriconcept procured from that supplier. The audit team contacted the second bidder and found that the pro forma invoice did not correspond to the one submitted to ADF by Agriconcept and that the invoice had been changed. The audit team could not get in touch with the third supplier; the contact information on the invoice was wrong and the audit team could not identify the firm through a search on the Internet. If ADF had verified the legitimacy of the grantee's request, it would have determined that the funding request from Agriconcept was not justified and the funds would not have been disbursed.

Another example attesting to the mismanagement of funds by Agriconcept is that Agriconcept purchased $54,000 worth of seeds and other supplies from the same supplier without carrying out a competitive bidding process, even though three of the eight invoices for seed procurement were higher than $10,000 and required pro forma invoices according to ADF policy. Moreover, in its last disbursement request for purchasing a used vehicle, Agriconcept submitted three bids, one of which was from the same supplier. However, ADF had not approved this disbursement.

Finally, Agriconcept had no lease agreement to support $6,000 of rental expenses, and the invoices submitted for payments present irregularities. Agriconcept requested ADF funding for 6 months' rents; however, it submitted invoices for ten months' rents (for the period January to October 2006.) According to the audit team research and discussion with the lessor, Agriconcept did not have a contract to lease the premises during this period. The invoices submitted to ADF for payments were signed by an organization that was not managing the rented space and was not authorized to receive rents. Moreover, the rents paid did not correspond to the monthly rents charged for the location of the premises.

As of the end of the audit fieldwork, ADF had disbursed $171,134 to Agriconcept. The ADF grant agreement, Section 13.8, states that the 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.

These irregularities occurred because ADF did not properly evaluate the funding requests submitted by the grantee and the audit firm did not communicate the instances of noncompliance and questionable acts to the OIG. Although the local public accounting firm audit report of August 2007 informed ADF of the ineligible questioned costs, the audit firm was not aware of the requirements for passing on information relating to indications of fraud to the USAID/OIG. Also ADF did not follow-up on the questioned costs and did not inform the OIG of these irregularities. If ADF does not inform the OIG of allegations of impropriety, then 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 No. 14: We recommend that the African Development Foundation report suspected irregularities to the Office of Inspector General.

Recommendation No 15: We recommend that prior to disbursing funds to a third party to procure equipment or services worth more than $5,000, the African Development Foundation (a) evaluate the authenticity of the procurement process and the bidders and (b) receive from the grantee a written statement in the language understood by the grantee, concerning the validity of the bid and confirm that there is no conflict of interest or falsified information.

Recommendation No. 16: We recommend that the African Development Foundation recover from the grantee, Agriconcept, the total amount of disbursement equivalent to $171,134 as required by its policy and follow-up on any legal actions on this indication of fraud.

Lack of Compliance with Agreement Terms

Summary: Several grantees were not in compliance with the terms of the agreements. The concerned grantees did not contribute to the ADF-designated community development trust fund or did not comply with the budgeted expenditures. These instances of noncompliance with the grant agreement were, in part, due to a lack of oversight by ADF. As a result, fewer funds were available for current or new projects.

According to Article 10 of the grant agreement, a grantee that receives funding for development assistance agrees to contribute a certain sum to an ADF-designated community development trust fund (Fund) established to further social and economic development at the community level in Senegal. The contribution is required during the life of the agreement and is deposited into an interest bearing account established in the name of the Fund. A review of the agreements active during FY 2007 listed in table 3 below, showed that eight grantees should have contributed to this Fund.

Table 3: Trust Fund Contributions Required by Project

Project	Amount in US$	Start date of contribution
Aboul Abass	$286,139	10/1/2005
Agriconcept	$276,000	10/1/2007
Gabastri	$245,011	10/1/2005
Maria Distribution	$275,465	10/31/2007
Ndiakhere	$177,640	10/31/2007
Tasdak	$193,069	10/01/2005
La Vivriere	$254,493	10/31/2004
Diocko	$126,000	9/22/2001
Total	$1,833,817	

None of the grantees of the projects listed above had contributed to the Fund owing to a lack of cashflow and profitability as well as a lack of followup by ADF. ADF's former country representative said that projects had not generated enough profit and thus the grantees were unable to make their contributions. If ADF does not take action to ensure compliance with the terms of the agreement, ADF will lose credibility with the grantees. For example, the grant with Diocko was awarded in 2000 and the grantee should have started its contributions in 2001, yet as of January 2008, no contributions had been made and the agreement had ended. ADF's former country representative said that ADF's priority was project development and that ADF lacked the resources to follow-up on grants that had terminated. If ADF does not intend to take action to ensure compliance, then the Article should be removed from the grant agreements.

Another case of noncompliance concerned the Bok Khalaat project. According to the $100,000, 1-year grant agreement this project will receive about $25,000 for site improvements consisting of three fish preparation shelters, improved table tops, plasticized wire netting, and other improvements for this fish-processing unit. The grant's objective was to improve the grantee's prospects for sustained expansion. The approved budget states that in order to test the impact of improvements to the infrastructure, three working shelters will be built and basic surface improvements will be made. The audit team found that instead of improving an existing site, the funds were being used to build a new structure that could accommodate only a few privileged members of this group of women. The new construction was not authorized by the terms of the agreement. A cost is allowable if it conforms to the provisions of an agreement. Therefore, the expenses incurred so far, totaling $17,065, were not authorized and are classified as ineligible questioned costs.

Newly constructed building at the fish-processing site of Bok Khalaat. According to the 1-year grant agreement, ADF was to provide funding for site improvements for the women processing fish on the beachfront. Photograph taken by an OIG auditor on January 17, 2008.

The audit team concluded that the noncompliance with various terms of the grant agreements occurred primarily because of a lack of oversight by ADF. As a result, no funds are available to further social and economic development at the community level in Senegal. To improve compliance with the terms of the agreement, this audit makes the following recommendations.

Recommendation No. 17: We recommend that the African Development Foundation either take appropriate measures to recover the Trust Fund contributions from grantees or modify its agreements to eliminate this provision.

Recommendation No. 18: We recommend that the African Development Foundation make a management decision with regard to the ineligible questioned costs of $17,065 and recover from the grantee the amounts determined to be unallowable.

EVALUATION OF MANAGEMENT COMMENTS

The African Development Foundation generally agreed with the findings and recommendations contained in our draft report. Following the issuance of our draft report we combined recommendation nos. 7, 8 and 9, recommendation nos. 13 and 14 and recommendation nos. 15 and 16, in order to reduce the number of recommendations and to simplify the audit followup process. The modifications were made to improve the clarity of the report and do not effect the actions that need to be taken by ADF.

In its comments on the draft report, ADF concurred with recommendation nos. 1 and 2 and has developed an action plan to ensure the early identification of problems and improve project implementation. In response to recommendation no. 3 ADF has taken appropriate measures to fill the vacant positions in Senegal. A country program coordinator was hired on April 30, 2008, and the two other positions will be filled by July 31, 2008. Based on the information provided, management decisions have been made for recommendation nos. 1, 2 and 3.

In response to recommendation nos. 4, 5 and 6, ADF agreed with the audit finding that grantee's reporting should be improved and will develop annual monitoring plans, training of grantees, and revise its policies to require the partner to verify grantees' progress reports for accuracy and completeness. Based on the information provided by ADF, we consider that management decisions have been reached for recommendation nos. 4, 5, and 6.

In commenting on recommendation no. 7, ADF did not agree to assign additional audit responsibility to its country representative. Instead, ADF is establishing an independent internal control function to strengthen internal audit capacity and to ensure that audits comply with ADF's policy. In response to the second part of the recommendation ADF agreed to amend its audit plan and conduct the required audits. We consider that a management decision has been reached for recommendation no. 7.

ADF agreed with recommendation no. 8 and will modify its audit guidelines to include the review of draft audit reports. With regard to recommendation no. 9 ADF did not agree to have its country representative monitor the audits of grantees. Rather, ADF plans to assign this responsibility to its audit unit. With regard to recommendation no. 9, ADF agreed with the audit finding to monitor the quality of the audit reports. However, ADF believes that this responsibility should not be assigned to its country representative. Instead, ADF will establish an independent internal control function to strengthen its internal control capacity and ensure that audits are completed in a timely manner and in accordance with its policies. ADF agreed with recommendation no.10 and will finalize the three draft audit reports. Based on ADF's comments, management decisions have been taken on recommendation nos. 8, 9 and 10.

ADF concurred with recommendation no. 11 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.

ADF concurred with recommendation nos. 12 and 13 and will amend its policy to identify and review unused equipment, take a decision on its disposition, and provide appropriate technical assistance to grantees on procurement. Based on ADF's comments management decisions have been reached.

ADF agreed with recommendation nos. 14, 15 and 16. In response to recommendation no. 14, ADF will send biannual notices to remind its staff and partner organizations of their responsibilities with regard to reporting irregularities to the Office of Inspector General. In response to recommendation no. 15, ADF will establish procurement procedures to ensure compliance with its policy. ADF agreed with recommendation no. 16 and will initiate a recovery process and take necessary legal action. Accordingly, we consider that a management decision has been reached for recommendation nos. 14, 15 and 16.

ADF agreed with recommendation no. 17. However, a management decision will be recorded for this recommendation when ADF develops a firm plan of action establishing a policy with target dates on the trust fund contributions. It would be very helpful if this plan specifically addressed whether ADF will take measures to recover the contributions from grantees.

In response to recommendation no. 18, ADF will conduct an investigation and determine the actions to be taken including the recovery of funds. 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 (ADF) 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 had taken effective corrective action on the recommendations of Audit Report No. 9-ADF-03-005-P, dated February 28, 2003. The audit scope covered 8 of 11 recommendations from the report and the associated actions taken by ADF/Senegal from October 2005 to February 25, 2008. RIG/Dakar did not follow-up on three recommendations either because the grants in Senegal had been awarded prior to the new policies and procedures being effected or because the actions taken by ADF/Washington could not be evaluated in Senegal.

In planning and performing this audit, RIG/Dakar reviewed relevant documentation pertaining to actions taken by ADF to close 8 of 11 recommendations. The audit team assessed the appropriateness and effectiveness of the new procedures and other measures implemented by ADF in response to the audit recommendations. The audit included a detailed review of all 10 projects of ADF/Senegal active at the end of fiscal year (FY) 2007.

During the audit, we interviewed ADF officials and officials from the partner organization. We visited all 10 of ADF's active projects as of September 30, 2007 as well as 3 completed grants. The audit fieldwork was performed from January 2 to February 25, 2008, at the ADF office in Dakar, Senegal, and at various grantee project sites throughout Senegal. ADF/Senegal disbursed $1.6 million from October 1, 2005 to December 30, 2007 for program activities.

Methodology

In performing the audit work, RIG/Dakar reviewed ADF's written response to the prior audit, which outlined specific steps to be taken to correct the identified weaknesses. The team reviewed the documentation that was submitted as final actions that would close the previously issued audit recommendations. We interviewed ADF/Senegal officials and conducted site visits to all 10 active projects and 3 completed projects. We observed the project's operations and interviewed grantee representatives. We interviewed auditors from the local accounting firm that conducted the last three audits of ADF grantees. The audit team also interviewed the partner organization responsible for providing technical assistance and monitoring oversight to ADF projects.

In addition, we completed the following steps:

- Reviewed applicable ADF policies for selecting, monitoring, and auditing grants.

- Reviewed documents obtained from the ADF/Senegal office, including project papers, grant agreements, budgets, progress reports, monitoring reports, contract documents, and pro forma invoices.

- Tested data included in ADF 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 for selected performance results. We selected quarters for FY 2007 and (when available) FY 2006. We selected all performance indicators reported on ADF's progress reports.

- Determined whether capital assets were properly purchased and controlled.

- Evaluated whether projects were meeting objectives, using a materiality threshold of 70 percent of the associated performance targets.

- Reviewed the qualifications of the accounting firm for conformance with the OIG list of approved audit firms and ADF guidelines.

- Verified the validity of pro forma invoices for equipment procurement.

To judge the significance of variances found during the audit between reported accomplishments and supporting documentation, we considered a variance of 10 percent or more to be significant and reportable. To determine whether final actions occurred, RIG/Dakar considered errors or variances of 10 percent or more to be significant and reportable.

MANAGEMENT COMMENTS

May 15, 2008

Dennis Bryant

Regional Inspector General

Office of the Inspector General

United States Agency for International Development

Ngor Diarama

Petit Ngor, BP 49

Dakar, Senegal

Re: Follow-up Audit of the Awarding and Monitoring of Grants by the African Development Foundation (Report No. 7-ADF-08-00X-P)

Dear Mr. Bryant:

The African Development Foundation (ADF) appreciates the work the Office of the Inspector General (OIG) has undertaken in this follow-up Audit to help ADF improve its operations. We view the issues raised in this report as serious and we have been, and will continue to be, addressing them in an urgent manner. The Board of Directors and I, along with other ADF staff members, have committed to immediate corrective action and to a future that operationally reflects the great mission of this Agency.

We have made rectifying the problems you identified an agency-wide priority. In

many cases we have already initiated corrective action. Please be assured that we will move quickly and purposefully to close each of the Report's recommendations. We expect to have completed implementation of all but one of the recommendations by July 31, 2008.

Attached is our response to each of the twenty-two recommendations in the Report. We have set forth the planned corrective action and target date for implementing the recommendation in the matrix at the end of our response.

Sincerely,

Lloyd O. Pierson

President

ADF's RESPONSE TO THE FOLLOW-UP AUDIT OF THE AWARDING AND MONITORING OF GRANTS

REPORT NO. 7-ADF-08-00X-P

Recommendation 1: **We recommend that the African Development Foundation (a) set objectives with realistic expectations (b) develop remediation plans for underperforming projects and, as warranted, terminate nonperforming grants, and (c) develop a monitoring and evaluation plan that includes evaluating each grantee's progress toward meeting its objectives to facilitate timely interventions to improve project results.**

ADF Position: We concur.

Discussion: The following responds to each item in the Recommendation.

(a) *Set objectives with realistic expectations.* ADF will review all partner organizations to ensure they have staff members with the core analytical competencies, particularly those required to make reliable projections and set realistic targets. Where these competencies do not exist, ADF will require the partner organization to recruit appropriate personnel. In addition, we will require all partner organizations to train their program staff in project analysis, design, and monitoring.

(b) *Develop remediation plans for underperforming projects and, as warranted, terminate nonperforming grants.* ADF will conduct a portfolio review of the Senegal program, and, in accordance with ADF Manual Section 632, develop a remediation plan for each underperforming project or terminate a project, if warranted.

(c) *Develop a monitoring and evaluation plan that includes evaluating each grantee's progress toward meeting its objectives to facilitate timely interventions to improve* *project results*. ADF has or will undertake several actions to improve its monitoring and evaluation. First, ADF has established a participatory monitoring and evaluation system as an early warning tool for under-performing projects. Under the system, independent evaluators help grantees set up their monitoring and evaluation committees and develop a monitoring and evaluation plan for the project. The evaluator visits the grantee on a routine basis to test the data in the system and address problems the grantee has encountered in the implementation and maintenance of the system. The system will help ensure that grantees report timely and accurate information on each active ADF-funded project. Second, ADF will assess and revise as needed field site visit tools and procedures used by partner organizations to track project performance and determine when remediation is necessary. Third, ADF will establish standards and guidance for the development and execution of monitoring, evaluation, and remediation plans and require the partner organization to develop a monitoring and evaluation plan for each project. Fourth, ADF will include monitoring, evaluation, and remediation as a critical element of the partners' and ADF field staff performance plans.

Recommendation 2: We recommend that the African Development Foundation take appropriate measures to disburse adequate funds to grantees in a timely manner.

ADF Response: We concur.

Discussion: ADF is reviewing its disbursement process and is working to identify efficiency enhancing changes. ADF has a responsibility to disburse funds in a timely manner and will have a new system in place soon that alleviates many of the existing problems. Appropriated dollars need to be obligated in a correct and efficient manner, but it is equally important to ensure that disbursements, provided they comply with the appropriate internal controls, are made to enable the grantee to implement the agreed upon project.

In addition, one reason for inaccurate and incomplete disbursement requests is the partners and ADF field staff do not have access to the data base in Washington and therefore may not be working from the latest financial information on a grant. To address this problem, ADF is designing a report of grant financing that will display each grant's status on disbursement, expenditures, available funding, and outstanding financial reports. The Finance Office will disseminate the report to partner organizations and Country Program Coordinators on a monthly basis.

Recommendation 3: We recommend that the African Development Foundation take appropriate measures to fill the positions left vacant in Senegal in order to provide proper project oversight and monitoring.

ADF Response: We concur.

Discussion: ADF hired a Country Program Coordinator (CPC) for Senegal on April 30, 2008. ADF will hire the Financial Manager by May 15, 2008, and the Business

Development Officer by July 31, 2008.

An organization has been selected to serve as ADF's partner in Senegal. The organization will be on board by the end of May 2008.

Recommendation 4: We recommend that the African Development Foundation provide its grantees with regular training and guidance such that grantees accurately report on their performance and maintain supporting documentation to validate results.

ADF Response: We concur.

Discussion: ADF will require all partner organizations to develop and implement annual plans that call for routine training of grantees in reporting performance and maintaining documents that validate the information reported. The annual plans will include an assessment of training needs (based on the grantee's report preparation performance) to isolate weaknesses and reiterative training to overcome the grantee's weaknesses.

Recommendation 5: We recommend that the African Development Foundation develop a monitoring plan so that the partner will regularly validate the quality of data, including supporting documentation, submitted by all grantees.

ADF Response: We concur.

Discussion: Please see the corrective action for Recommendation 1(c) above. In addition, ADF will require the following: (a) partners must obtain site visit reports from travelers and certify their accuracy and completeness before processing travel vouchers; (b) the CPC will verify the accuracy and completeness of the data reported with follow-up site visits; and (c) accuracy and completeness of grantees' reports will become a critical performance indicator for the partner organizations.

Recommendation 6: We recommend that the African Development Foundation define the responsibilities of its partner organization to include the verification of the quality and completeness of progress reports.

ADF Response: We concur.

Discussion: **ADF will amend all cooperative agreements with its partner organizations to specify that they are responsible for verifying the quality and completeness of grantees' progress reports. In addition, ADF will revise its Manual Section 630 entitled Monitoring and Evaluation and Manual Section 631 entitled Grantee Reporting to require the partner organizations to verify the accuracy, quality, and completeness of grantees' progress reports.**

Recommendation 7: We recommend that the African Development Foundation (a) conduct annual audits of its partner organization in accordance with its policy and U.S. Government auditing standards and (b) amend its audit plan to conduct an audit of Consultants Associés in FY 2008.

ADF Response: We concur.

Discussion: ADF will undertake the following actions.

(a) ADF will update its audit policy to require organizational-wide audits for those partner organizations with more than one client. These audits will provide the basis for assessing the adequacy of measures for funds control, internal control policies and procedures for management control of daily transactions, safeguard of assets, timely and efficient decision-making, and compliance with local laws and regulations. ADF will request the auditor to determine where there is substantial doubt that the partner will be able to continue as a viable concern over the coming year.

If ADF is the partner organization's only client, we will require a funds accountability report, a report on internal controls, and a report on compliance with ADF policies and procedures and local laws and regulations.

(b) ADF will conduct a funds accountability audit of Consultants Associés in FY 2008.

Recommendation 8: We recommend that the African Development Foundation conduct audits of its grantees in accordance with its policy and conduct an audit of La Maison du Karite and Aboul Abass in FY 2008.

ADF Response: We concur.

Discussion: ADF's audit policy states that all grants with disbursements of $50,000 or more will be audited. The intent is to limit the scope of the policy to grants for long-term development projects. The Enterprise Development Investments (EDIs), such as La Maison du Karite, are short-term capacity building grants that can reach $100,000 in value. The purpose of EDIs is to build the financial and management capacity of the grantee. Internal controls for EDI clients are not completed until the end of the project. Hence, a formal audit of an EDI would not be appropriate, since there is no basis for assessing the adequacy of the internal controls. A review of funds disbursed and assets received would be sufficient to determine compliance with the grant agreement.

ADF will modify its audit policy to include formal reviews of those active EDIs that the monitoring and evaluation system (or other source) indicates may not be in compliance with the grant agreement. The review will examine compliance with the terms of the grant agreement, including use of funds disbursed.

We agree with the Audit Report's findings on La Maison du Karite; however, because La Maison du Karite has ended, we do not intend to expend additional funds to the project or for an audit. We will audit Aboul Abass in FY 2008.

Recommendation 9: We recommend that the African Development Foundation assign responsibility to its country representative to ensure that audits of grants are conducted according to its policy.

ADF Response: We do not concur.

Discussion: ADF recently established an independent internal control function, which will strengthen the internal audit capacity at headquarters and in the field by adding up to 2 auditors. The auditors will be an integral part of the audit teams. Along with the Regional Program Coordinators, the internal auditors will ensure that audits comply with ADF's policy.

Recommendation 10: We recommend that the African Development Foundation modify its audit guidelines to require that draft audit reports be reviewed by the Foundation before the audit firm finalizes the audit report to ensure compliance with appropriate standards.

ADF Response: We concur.

Discussion: ADF will update its audit policy to reflect current procedures, which include review of draft audit reports before the audit firm finalizes the reports.

Recommendation 11: We recommend that the African Development Foundation include in the country representative scope of work the responsibilities to (a) monitor the audits of all grantees and (b) complete the two quality control checklists for each audit to ensure that audits are completed in a timely manner and in accordance with its requirements and appropriate auditing standards.

ADF Response: We concur in part.

Discussion: (a) ADF's internal audit unit will monitor the grantee audits; and (b) ADF will update its audit guidelines to assign the following responsibilities to the financial officers at the CPC offices: (i) report on the progress of project audit field work; (ii) provide a quality review to be submitted to the ADF internal auditor on the audit work papers provided at the exit conference that discuss audit findings; and (iii) provide the ADF internal auditor information to ensure timely follow-up action on findings.

Recommendation 12: We recommend that the African Development Foundation require the local accounting firm to finalize and issue the three draft audit reports pending according to appropriate standards.

ADF Response: We concur.

Discussion**: ADF has reviewed the audit submissions from the local accounting firm, Ernst and Young. The firm is in the process of finalizing the audit.**

Recommendation 13: We recommend that the African Development Foundation provide grantees with financial management training so that monthly profit and loss statements can be accurately completed and supported by documentation.

ADF Response: We concur.

Discussion: **ADF will enter into a cooperative agreement with an accounting or financial management firm to provide continuous needs assessment and financial training to the grantees. The ADF audit team will train the CPC's financial officer in the preparation of profit and loss statements and will conduct annual assessments of the CPC's performance.**

Recommendation 14: We recommend that the African Development Foundation require its partner organization to provide technical assistance to the grantees on sound financial management practices.

ADF Response: We concur.

Discussion: **ADF will remove from current partners' agreements the duty to provide financial management technical assistance. Under a separate cooperative agreement, an accounting or financial management firm will provide continuing financial management training to grantees. This separation of duties will ensure adequate transparency in financial management.**

Recommendation 15: We recommend that the African Development Foundation review and evaluate the need and appropriateness of the project-funded equipment as part of its due diligence process and portfolio reviews.

ADF Response: We concur.

Discussion: ADF will amend its Manual to specify that evaluation of equipment and technology is a key part of the due diligence process and portfolio reviews. The Manual will include guidelines for conducting a cost-effectiveness evaluation of equipment.

ADF will assess all partner organization staffs to ensure they include individuals with a basic knowledge of procurement needed to research and assess technology and equipment choices. Country Program Coordinators will receive training in evaluating technology and equipment choices.

Recommendation 16: We recommend that the African Development Foundation take appropriate measures to sell or transfer grantees' unused equipment.

ADF Response: We concur.

Discussion: ADF will identify and review all cases of unused equipment and make decisions on the disposition.

Recommendation 17: We recommend that the African Development Foundation require the partner organization to provide technical assistance to assist grantees in the procurement of appropriate equipment.

ADF Response: We concur.

Discussion: **ADF will amend the partner organization agreements to provide for technical assistance in procurement.**

Recommendation 18: We recommend that the African Development Foundation send a reminder to its partner organizations and office representatives of their responsibilities in reporting suspected irregularities to the Office of Inspector General.

ADF Response: We concur.

Discussion: **ADF will send biannual notices to its headquarter staff, field staff, and all partner organizations.**

Recommendation 19: We recommend that prior to disbursing funds to a third party to procure equipment or services worth more than $5,000, the African Development Foundation (a) evaluate the authenticity of the procurement process and the bidders and (b) receive from the grantee a written statement in the language understood by the grantee, concerning the validity of the bid and confirm that there is no conflict of interest or falsified information.

ADF Response: We concur.

Discussion: ADF's procedures for disbursement will be updated to reflect the recommendation.

Recommendation 20: We recommend that the African Development Foundation recover from the grantee, Agriconcept, the total amount of disbursement equivalent to $171,134 as required by its policy and follow-up on any legal actions on this indication of fraud.

ADF Response: We concur.

Discussion: **ADF will work with its legal counsel in Mali to recover the $171,134 and undertake the appropriate legal action.**

Recommendation 21: We recommend that the African Development Foundation either take appropriate measures to recover the Trust Fund contributions from grantees or modify its agreements to eliminate this provision.

ADF Response: We concur.

Discussion: **ADF will assess its policy on the Trust Fund contributions and determine the appropriate management decision.**

Recommendation 22: We recommend that the African Development Foundation take a management decision with regard to the ineligible questioned costs of $17,065 and recover from the grantee the amounts determined to be unallowable.

ADF Response: We concur.

Discussion: **ADF will take steps to recover the entire $17,065.**

SUMMARY ADF'S RESPONSE TO THE FOLLOWUP AUDIT OF AWARDING AND MONITORING OF GRANTS REPORT NO. 7-ADF-08-00X-P May XX, 2008

No.	OIG Recommendation	ADF Response	Corrective Action	Estimated Completion Date
1	**(a) Set objectives with realistic expectations;** **(b) Develop remediation plans for underperforming projects and, as warranted, terminate nonperforming grants; and** **(c) Develop a monitoring and evaluation plan that includes evaluating each grantee's progress toward meeting its objectives to facilitate timely interventions to improve project results.**	Concur	(a) Assess all Partners to ensure they have staff with core analytical competencies.	July 31, 2008
			(b) Require the partners to provide appropriate staff refresher training in project analysis and design, monitoring and remediation.	July 31, 2008
			(c) Conduct a portfolio review of the Senegal program and develop remediation plans, and terminate grants where warranted.	June 30, 2008
			(d) Establish the participatory monitoring and evaluation system as an early warning tool for grant performance.	May 31, 2008
			(e) Assess and revise as needed field site visit tools and procedures for partners to track project performance and propose remediation.	June 30, 2008
			(f) Establish standards and guidance for the development and execution and monitoring and evaluation plans, and require plan for each active project.	June 30, 2008
			(g) Finalize monitoring and evaluation plans for each Senegal project.	June 30, 2008
			(h) Include monitoring and evaluation and remediation as critical elements of the partners' and field staff's performance evaluation.	June 30, 2008

2	**Take appropriate measures to disburse adequate funds to grantees in a timely manner**.	Concur	(a) Develop and disseminate to partner organizations and Country Program Coordinators a monthly report of grant financing that will display each grant's status on disbursement, expenditures, available funding, and outstanding financial reports. (b) Examine the disbursement process to identify efficiency enhancing changes and revise the grant disbursement manual, as appropriate, including delineating the role of each party in the disbursement process.	June 30, 2008
3	**Take appropriate measures to fill the positions left vacant in Senegal in order to provide proper project oversight and monitoring.**	Concur	Country Program Coordinator hired 4/30/08; Financial Manager will be hired by 5/15/08; BDO hired by 7/31/08	July 31, 2008
4	Provide its grantees with regular training and guidance such that grantees accurately report on their performance and maintain supporting documentation to validate results.	Concur	Partners will develop annual plans that provide for routine training of grantees in reporting performance and maintaining documentation to validate results. The plans will include assessment, based on Partner's report preparation performance, and follow-on training as needed to address weaknesses.	July 31, 2008
5	Develop a monitoring plan so that the partner will regularly validate the quality of data, including supporting documentation, submitted by all grantees.	Concur	See corrective action for Recommendation 1. In addition, ADF will provide incentives for the Partners to verify the reports: (a) the partner will require travelers to submit site visit reports and certify the accuracy and completeness of the report before processing travel vouchers; (b) require the Country Program Coordinator to verify the accuracy and completeness of the report with a follow-up site visit; and (c) make the accuracy and completeness of reports a critical performance indicator for the partner (e.g., measure the	July 31, 2008

			number of inaccurate and incomplete reports certified by the partner).	
6	Define the responsibilities of its partner organization to include the verification of the quality and completeness of progress reports.	Concur	(a) Revise the Partners' cooperative agreement to specify they are responsible for verifying the quality and completeness of progress reports; and (b) Revise Manual Section 630 Monitoring and Evaluation and Manual Section 631 Grantee Reporting to require the partner to verify the accuracy, quality, and completeness of progress reports.	June 15, 2008
7	(a) conduct annual audits of its partner organization in accordance with its policy and U.S. Government auditing standards; and (b) amend its audit plan to conduct an audit of Consultants Associés in FY 2008.	Concur	(a) Update ADF's audit policy to provide for organizational-wide audits for those Partners with more than one client. These audits will provide the basis for determining the adequacy of measures for funds control, internal control policies and procedures for management control of daily transactions, safeguard of assets, timely and efficient decision-making, and compliance with local laws and regulations. ADF will request the auditor to determine where there is substantial doubt that the Partner will be able to continue as a viable concern over the coming year. If ADF is the Partner's only client, the requirement will be a funds accountability report, a report on internal controls, and a report on compliance with ADF policies and procedures and local laws and regulations. (b) ADF will conduct a funds accountability audit of Consultants Associés in FY 2008.	June 30, 2008
8	Conduct audits of its grantees in accordance with its policy and conduct an audit of La Maison du Karite and Aboul Abass in FY 2008.	Concur	ADF's audit policy states all grants with disbursements of $50,000 or more will be audited. The intent was to limit the scope of the policy to grants for long-term development projects. The Enterprise Development	

			Investments or EDIs are short-term capacity building grants, such as La Maison du Karite, which can reach $100,000 in value. The purpose of EDIs is to build the financial and management capacity of the grantees. Internal controls for EDI clients are not completed until the end of the project. Hence, a formal audit of an EDI would not be appropriate, since there is no basis for assessing the adequacy of the internal controls. A review of funds disbursed and assets received would be sufficient to determine compliance with the grant agreement. ADF will modify its audit policy to include formal reviews of those EDIs that the monitoring and evaluation system indicates may not be in compliance with the grant agreement. The review will examine the compliance with the terms of the grant agreement, including use of funds disbursed. Since La Maison du Karite has expired, ADF will not expend additional funds for an audit or to cover other grant costs Aboul Abass has been included in the audit plan for FY 2008.	 June 30, 2008 September 30, 2008
9	Assign responsibility to its country representative to ensure that audits of grants are conducted according to its policy.	Do not concur	ADF is establishing an independent internal control office, which will strengthen the internal audit capacity at headquarters and in the field from 1 to 3 auditors. The auditors will be an integral part of the audit teams. Along with the Regional Program Coordinators, the internal auditors will ensure that audits comply with ADF's policy.	May 31, 2008
10	Modify its audit guidelines to require that draft audit reports be reviewed by the Foundation before the audit firm finalizes the audit report to ensure compliance with appropriate standards.	Concur	ADF will update its audit policy to reflect current procedures, which includes review of draft audit reports before the audit firm finalizes the reports.	May 31, 2006

11	Include in the country representative scope of work the responsibilities to (a) monitor the audits of all grantees and (b) complete the two quality control checklists for each audit to ensure that audits are completed in a timely manner and in accordance with its requirements and appropriate auditing standards.	Concur in part	(a) These responsibilities are assigned to the audit unit. ADF will strengthen it audit presence at headquarters and in the field, which will result in improved oversight of audits. (b) ADF will update its audit guidelines to assign the following responsibilities to the financial officers at the country representative offices: (i) report on the progress of project audit field work; (ii) provide a quality review to be submitted to the ADF internal auditor on the audit work papers provided at the exit conference that discuss audit findings; and (iii) provide the ADF internal auditor information to ensure timely follow-up action on findings.	May 31, 2008 May 31, 2008
12	Require the local accounting firm to finalize and issue the three draft audit reports pending according to appropriate standards.	Concur	ADF has reviewed the audit submissions from the local accounting firm, Ernst and Young. The firm is in the process of finalizing the audit.	June 30, 2008
13	**Provide grantees with financial management training so that monthly profit and loss statements can be accurately completed and supported by documentation.**	Concur	ADF will enter into a cooperative agreement with an accounting or financial management firm to provide continuous needs assessment and financial training to the grantees. The ADF audit team will train the Country Program Coordinator's (CPC) financial officer in preparation of profit and loss statements and will conduct annual assessments of the CPC's performance.	June 30, 2008
14	**Require its partner organization to provide technical assistance to the grantees on sound financial management practices.**	Concur	ADF will remove from current Partners' agreements the duty to provide financial management technical assistance. Under a separate cooperative agreement, an accounting or financial management firm will provide continuing financial management training to grantees. This separation of duties will ensure adequate transparency in financial management.	June 30, 2008
15	**Review and evaluate the need**	Concur	ADF will amend its Manual to	June 30, 2008

	and appropriateness of the project- funded equipment as part of its due diligence process and portfolio reviews.		require evaluation of equipment and technology as part of the due diligence process and portfolio reviews. The Manual will include guidelines for assessment of technology. ADF will assess all Partner staffs to ensure individuals with the basis knowledge of procurement needed to research and assess technology choices. Country Program Coordinators will receive training in technology choice.	June 30, 2008
16	**Take appropriate measures to sell or transfer grantees' unused equipment.**	Concur	ADF will identify and review all cases of unused equipment and make decisions on the disposition.	September 30, 2008
17	**Require the partner organization to provide technical assistance to assist grantees in the procurement of appropriate equipment.**	Concur	ADF will amend the partner organization's agreement to provide for technical assistance in procurement.	July 31, 2008
18	**Send a reminder to its partner organizations and office representatives of their responsibilities in reporting suspected irregularities to the Office of Inspector General**	Concur	ADF will send biannual notices to its headquarter staff and field staff and to all partner organizations.	June 1, 2008
19	**Prior to disbursing funds to a third party to procure equipment or services worth more than $5,000, the African Development Foundation (a) evaluate the authenticity of the procurement process and the bidders and (b) receive from the grantee a written statement in the language understood by the grantee, concerning the validity of the bid and confirm that there is no conflict of interest or falsified information**	Concur	ADF's procedures for disbursement will be updated to reflect the recommendation.	May 31, 2008
20	**Recover from the grantee, Agriconcept, the total amount of disbursement equivalent to $171,134 as required by its policy and**	Concur	Initiate recovery process and take necessary legal action.	June 30, 2008

	follow-up on any legal actions on this indication of fraud.			
21	**Take appropriate measures to recover the Trust Fund contributions from grantees or modify its agreements to eliminate this provision.**	Concur	ADF will assess its policy on the Trust Fund contributions and determine the appropriate management decision.	July 31, 2008
22	**Take a management decision with regard to the ineligible questioned costs of $17,065 and recover from the grantee the amounts determined to be unallowable.**	Concur	ADF understands there are extenuating circumstances surrounding this expenditure; therefore we will conduct an investigation to determine what actions should be taken, including recovery of funds.	July 31, 2008

FURTHER ILLUSTRATIONS

Grantees' Reporting Should be Improved

The following presents additional examples of inaccurate or incomplete results from page 8 of the report.

- Aboul Abass, a laundry business, reported employee salaries of $5,000, sales of $15,000 and a net profit of about $3,000 for FY 2007. However, the grantee could not provide documentation to support any of these accomplishments. No payroll records existed and no payroll expenses or related payroll taxes were included in the computation of the profit and loss statements. Moreover, the laundry business recorded the payment of only two water bills, no phone bill and only one of six electricity bills during FY 2007. Although the grantee reported having cleaned 2,450 pieces of clothing during the quarter ending September 2007, the audit team found documentation for only 843 pieces of clothing.

- Gabastri, a producer of hinges for doors and windows, reported a production of 2,890 hinges and sales of $6,000 for the third quarter of FY 2007. However, based on supporting documentation, Gabastri produced 52,128 hinges with sales of $11,000. Gabastri also reported salaries of $2,750 for the quarter ending September 30, 2007. However, the audit team found documentation for salaries of only $1,800. The grantee reported losses for all four quarters of FY 2007 and the number of its employees' was reduced by half during FY 2007. However, the progress reports did not mention these problems in project implementation.

- Ndiakhere, a cereal producer, reported production of 24 tons for the quarter ending June 2007 and 17 tons for the quarter ending September 2007. However, the production records showed that 33 tons and 13 tons were produced, respectively.

- Agriconcept, a green beans producer, reported sales of $51,000 for the quarter ending December 31, 2006 and $44,000 for the quarter ending March 31, 2007. However, the audit team found only documentation supporting sales of $17,000 for the first quarter of FY 2007. Agriconcept did not report any information for the other two quarters of FY 2007 because its production was seasonal. The reports did not mention that although ADF had purchased and paid for a mechanical bean cutter in October 2006, the machine had not yet been delivered. (See finding on page 19)

- La Maison du Karite, a cosmetic shea butter producer had not reported any relevant information regarding the progress made toward achieving its objectives or problems faced in increasing production or improving its financial management system. The performance indicators reported were not required by the grant documents.

Several Grantees Suffered from Weak Financial Management Practices

The following presents additional examples of financial management weaknesses from page 16 of the report.

- The principal output of the WAW Vegetable project, approved in 2006, was to strengthen organizational and management capacity. The grantee's accountant did not have a background in accounting and could not properly record sales. For example, the accountant recorded sales when an advance or deposit was received. Sometimes sales were cancelled but ADF reports had already been produced and were not corrected.

- Bok Khalaat, a project awarded in 2006, had as principal outputs a full financial management system and improved operational and management capabilities. The project did not maintain any records of transactions and did not have any supporting documentation for project-related activities.

- Gabastri, a project awarded in September 2004, had no computerized accounting system and had not produced monthly profit and loss statements. The audit found that all of the internal control deficiencies reported by a financial audit conducted during FY 2007 had not been addressed and the project did not have an accountant, no cash reconciliation had been made since the beginning of the project, reimbursement requests were not properly documented and fixed assets were not labeled or listed.

- Ndiakhere, a cereal-processing project awarded in September 2005, could not conduct an inventory to ensure that the quantity of products on hand reconciled with the quantity produced and sold, did not prepare bank reconciliations, and did not produce profit and loss statements.

- La Vivriere, a project awarded in 2003, did not have a financial management system. The project lost its data because of a computer failure and no backup had been made. The grantee did not produce required profit and loss statements and did not have supporting documentation for reported information.

- Agriconcept, a green beans export project awarded in September 2005, had no accounting system, supporting documents, or records of transactions, and had not been able to generate profit and loss statements. The financial audit conducted during FY 2007 reported that no bank reconciliations were prepared, and the cash balance did not reconcile with the fund accountability statement.

Capital Assets Not Properly Used for Intended Purposes

The following presents additional examples of assets not being used for intended purposes. (See finding on page 17 of this report.)

- La Maison du Karite had never used the mill purchased by ADF to improve its production processes. The grantee's promoter said that the machine was not adapted to its needs and was not cost-effective.

- The WAW Vegetable project had not used the oven and tank purchased by ADF due to incompatibility of power sources. At the time of the audit team's visit in January 2008, 4 months after the planned ending date for the project, this equipment was not installed and could not be used. The grantee's promoter said that the equipment was not cost-effective and the machine was too big to process the small quantity of seaweed produced.

A project tank not being used by the WAW Vegetable project in Gaparou. Women sorting seaweed outdoors without protection from the sun at Pointe Sereine. Photos taken by an OIG auditor on January 14, 2008.

- Aboul Abass had limited use for the equipment provided by ADF. ADF had purchased two dryers. One dryer was not connected and the other had never been used because it was much cheaper to dry the clothes under the sun. ADF also provided the grantee with two ironing presses. One ironing press had not been unpacked and the other had limited use because the grantee had washed sheets in large quantities only twice during FY 2007. ADF had also purchased five washing machines of varying capacities. The grantee was using only two of the five machines. The other three machines required too much water to run. In addition, the delivery vehicle purchased by ADF was mainly for the project manager's personal use.

Aboul Abass had limited use for the five washers provided by ADF and had never used the purchased dryers because it was more cost-effective to dry the clothes under the sun. Electricity in Senegal is expensive and unreliable. Photograph taken by an OIG auditor on January 16, 2008.

- La Vivriere had plans to expand its new cereal-processing facility and ordered new equipment from a supplier that had never built this type of equipment before. As a result, the conveyer was not working, the weighing and packing machine was not used properly, and the granulator and other machinery were still not used by the project 4 1/2 years after project inception.

At La Vivriere project, the washing machine was not functioning properly, so women were washing the mill manually. The granulator was not operational.
Photos taken by an OIG auditor on January 7, 2008, in Dakar, Senegal.

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