



*Office of Inspector General*

November 30, 2012

**MEMORANDUM**

**TO:** USAID/Guinea, Nancy Estes

**FROM:** RIG/Dakar, Gerard Custer /s/

**SUBJECT:** Review of USAID/Guinea's Rural Microenterprise Development Project (Report No. 7-675-13-001-S)

This memorandum transmits our final report on the review. We have considered carefully your comments on the draft report and have included them in their entirety in Appendix II.

The final report includes five recommendations to improve the management and oversight of USAID/Guinea's Rural Microenterprise Development Project. On the basis of actions that the mission has taken, we determined that final action has been achieved on Recommendations 1, 2, and 5.

A management decision was reached on Recommendations 3 and 4. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

I want to express my appreciation for the cooperation and courtesy extended to my staff during the review.

# SUMMARY OF RESULTS

The West African nation of Guinea has spent many of its 54 years in the grip of authoritarian leaders. As a result, a country replete with mineral and agricultural resources ranks among the ten poorest in the world; according to Oxford University's Multidimensional Poverty Index, almost 63 percent of Guineans live in severe poverty.

The outlook seemed to improve, however, after Guinea held what many observers called its first credible presidential elections in 2010. The following year USAID/Guinea provided a \$1,995,224 cooperative agreement to Opportunities Industrialization Centers Guinea (OIC Guinea)<sup>1</sup> to support the Guinea Rural Microenterprise Development Project, which aimed to help 772 farmers in the Fouta Djallon highlands located in the center of the country. According to the agreement, 563 of the farmers were women "who will use the project support to expand [and] improve their production and efficiency while developing marketing skills and increased profits." The project would work also with six microenterprises formed by groups such as beekeepers, ginger growers, and weavers, as well as with five local banks.

The effective date of the agreement is December 1, 2011, and the estimated completion date is November 30, 2016. As of August 10, 2012, USAID/Senegal—as the accounting station for USAID/Guinea—had obligated \$1,995,224 and spent \$275,573 on behalf of USAID/Guinea.

USAID/Guinea found problems during a financial review of its activities and asked the Regional Inspector General/Dakar (RIG/Dakar) to determine whether the mission had identified and addressed risks related to the cooperative agreement with OIC Guinea. RIG/Dakar found that while the mission identified some risks and prevented potentially fraudulent, inefficient actions, others could have been prevented if the procurement process had been implemented properly. Furthermore, the following implementation problems need to be addressed.

- The mission did not maintain adequate award files (page 3). The files were missing important documents, such as concept papers from potential implementers and mission employees' evaluations of them.
- The mission did not monitor the project well (page 4). The agreement contained an unusually large advance, the work plan was not approved, the list of key personnel was not correct, and the budget contained errors.

The review recommends that USAID/Guinea:

1. Review award files periodically for a complete history of award transactions, document reviews, and corrective actions taken (page 4).
2. Establish a procurement plan outlining procedures for soliciting and receiving proposals, and for selecting members of the technical evaluation committee (page 4).

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<sup>1</sup> OIC Guinea is an affiliate of OIC International, a Philadelphia-based nonprofit that works "to build self-reliance and entrepreneurship through technical and vocational skills development."

3. Amend the cooperative agreement with OIC Guinea replacing Sections A.3.4 and A.3.5 regarding advances with a provision for a normal advance (page 5).
4. Approve OIC Guinea's activity monitoring plan (page 5).
5. Require OIC Guinea to submit a request for approval of key personnel (page 5).

Detailed findings appear in the following section. Appendix I contains information on the scope and methodology. USAID/Guinea's management comments are included in their entirety in Appendix II, and our evaluation of mission comments is included on page 6 of the report.

# REVIEW RESULTS

## **Award Files Were Not Maintained Adequately**

Federal Acquisition Regulation (FAR) 4.801 (b) states that documentation in contract files should constitute a complete history of the transaction; provide a complete background for decisions made; support actions taken; and give information for reviews, investigations, litigation, or congressional inquiries.

According to Automated Directives System (ADS) 303.3.14, “Designation of the Agreement Officer’s Representative [AOR],” the agreement officer must appoint a representative—and an alternate if applicable—as early in the award process as practical. The officer must use a designation letter to define the scope of authority that the AOR has to carry out grant or cooperative agreement administration duties, which would otherwise be the officer’s responsibility.

USAID/Guinea did not maintain adequate official award files, and some historical information was not available for review. The files were missing critical documents, such as the concept papers from potential recipients that members of the technical evaluation committee (TEC) received and reviewed and evaluation sheets. The review team did not find documents in the files that justified why OIC Guinea changed a member of its staff. The mission did not clearly document a staff member’s designation as the local Development Grants Program (DGP)<sup>2</sup> representative. Neither the senior agreement and assistance specialist nor the deputy program director had the e-mail correspondence with DGP/Washington that designated the local program representative as chairman of the TEC also. Further, the agreement officer did not properly designate the first AOR for the project, as required.

Several factors contributed to this lack of documentation. Among them were staff turnover and absences in the mission’s Office of Acquisition and Assistance (OAA). The agreement officer who began the procurement process for this award did not leave any records or maintain any of the concept papers. The current senior agreement and assistance specialist did not seem to understand the award process and provided inconsistent responses to the review team’s inquiries.

Mission officials said there was no documented delegation of authority because the deputy program officer appointed himself the mission’s DGP representative, TEC chairman, and AOR for the program. These actions, coupled with the fact that he asked that the award agreement include an unjustified advance of 30 percent, undermined the project’s internal control structure and significantly increased the risk of fraud, waste, and abuse.

Though it is unclear whether OAA or the program office received the concept papers since none were in the files, it is our view that the program office was too involved in the procurement process.

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<sup>2</sup> According to the Agency’s Web site, the Development Grants Program “is a multimillion dollar annual grant program focused on building and expanding partnerships with U.S. and local, in-country organizations that have little direct experience in working with USAID.”

Without access to all the concept papers received and the evaluation sheets for the three that the TEC reviewed, the mission could not ensure that it gave all qualified applicants an equal opportunity to compete for this award. Further, documentation and periodic reviews of files are basic tools available to managers to help provide continuity of operations and to be certain that federal resources are protected and used appropriately. Maintaining adequate documentation is important for historical purposes, especially when the responsibility for a program changes hands. As a prudent internal control, the mission should establish procedures to verify that all award files are comprehensive and maintained. Accordingly we make the following recommendations.

***Recommendation 1.*** We recommend that USAID/Guinea review award files periodically for a complete history of award transactions, document reviews, and note for corrective action.

***Recommendation 2.*** We recommend that USAID/Guinea improve the procurement plan outlining procedures for soliciting and receiving proposals, and for selecting members of the technical evaluation committee.

## **Project Monitoring Was Weak**

According to ADS 303.2(d), the agreement officer is legally responsible for the award. Therefore, only he or she can enter into, change, or terminate an award on behalf of USAID. ADS 303.2(f) states that AORs are responsible for monitoring and evaluating the recipient and its performance during the award. The AOR should carry out these responsibilities by maintaining contact with the implementer; confirming through site visits that it complies with the terms and conditions of the award; reviewing and analyzing reports; and verifying timely performance, including meeting reporting requirements.

During the review, RIG/Dakar observed several problems, which are discussed below.

- An inappropriate clause authorizing the payment of an advance of 30 percent of the award (\$598,567) was included in the agreement after it was negotiated. The senior agreement and assistance specialist said he added the advance because the deputy program director asked him to.
- As of August 18, 2012—8 months after the activities began—USAID/Guinea had not approved the work plan. Without that approved plan, the mission has no baseline to determine whether the activities were approved and how they support the overall project objective.
- OIC Guinea replaced the project manager who was listed in the agreement before the project began, yet it failed to notify the mission of this change. Due to the lack of monitoring, USAID/Guinea missed the opportunity to enforce the award terms that required the mission to approve changes in key personnel.
- OIC Guinea's budget preparation was poor and indicated a lack of knowledge of USAID policies. For example, although all costs are paid by USAID, OIC included a negotiated indirect cost rate in its budget, which is in violation of Contract Information Bulletin 92-17,

“Indirect Cost Rates.”<sup>3</sup> OIC officials said they needed the 30 percent advance to cover costs including staff salaries for a year; according to Agency rules, advances normally should be used to cover immediate needs. During the final review of the advance request, the mission’s Office of Financial Management found the advance request and took appropriate action to prevent it from being disbursed. The mission could help OIC Guinea boost its knowledge of USAID policies by providing technical assistance up front and by monitoring the program in a timely manner.

The program office’s undue involvement in the procurement process, the lack of technical assistance to build the recipient’s capacity, and weak program monitoring caused all of the problems outlined above. These problems lessen the confidence that USAID/Guinea should have in OIC’s ability to avert prospective problems. We make the following recommendations to help the mission improve its monitoring of the project.

***Recommendation 3.*** *We recommend that USAID/Guinea amend the cooperative agreement with Opportunities Industrialization Centers Guinea to delete Sections A.3.4 and A.3.5 regarding advances and replace with a provision for a normal advance.*

***Recommendation 4.*** *We recommend that USAID/Guinea approve the Opportunities Industrialization Centers Guinea activity monitoring plan.*

***Recommendation 5.*** *We recommend that USAID/Guinea ask Opportunities Industrialization Centers Guinea to submit a request for approval of key personnel.*

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<sup>3</sup> According to Bulletin 92-17 (October 31, 1992), indirect costs cannot be identified directly with a single contract or grant. Such costs are applied equitably to all of an organization’s business activities, according to the benefits gained from them.

# EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft review report, USAID/Guinea agreed with the five recommendations. Summarized below are the comments and the review team's evaluation of them.

**Recommendation 1.** The mission implemented a plan for periodic review of award files, and the AOR of the OIC activity took appropriate action to update the files; additionally the mission established a procurement team to review all award files. The mission provided the documented review plan and a sample mission order and checklist that should help staff members maintain award files with the proper documentation. The mission's action adequately addresses the recommendation. Accordingly, Recommendation 1 will be closed on issuance of this report.

**Recommendation 2.** The mission has taken actions to strengthen its procurement process. It updated its procurement plan to make sure proposals are solicited and received properly and that the TEC includes people with appropriate skills and expertise. The updated plan tracks all procurement actions, pending clearances and approvals by the OAA. TEC members are now selected by the OAA at USAID/Senegal and reviewed by the mission director. The actions taken adequately address the recommendation. Accordingly, Recommendation 2 will be closed on issuance of this report.

**Recommendation 3.** The mission agreed to amend the cooperative agreement with OIC/Guinea to delete Sections A.3.4 and A.3.5 regarding advances and replace it with a provision for normal advances. The target date for completion is December 31, 2012. Based on the mission's described actions, a management decision has been reached.

**Recommendation 4.** The mission's AOR is working with the partner to develop an activity monitoring plan. The target date for completion is March 31, 2013. Based on the mission's described actions, a management decision has been reached.

**Recommendation 5.** The mission stated that the AOR asked the grantee to submit a request for approval of key personnel, and the agreement officer received that request on November 19, 2012. The mission's action adequately addresses the recommendation. Accordingly, Recommendation 5 will be closed on issuance of this report.

# SCOPE AND METHODOLOGY

## Scope

RIG/Dakar conducted this review in accordance with generally accepted government auditing standards. They require that we obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, in accordance with our review objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of the review was to determine whether USAID/Guinea identified and addressed the risks in the cooperative agreement with OIC Guinea for the Guinea Rural Microenterprise Development Project.

As part of the review, we assessed the management controls the mission used to manage the procurement process and to monitor project activities. The assessment included controls related to documentation and supervisory review to determine whether USAID/Guinea (1) maintained proper documentation of award files, (2) required and approved an annual work plan, and (3) reviewed OIC Guinea's progress and financial reports.

RIG/Dakar performed the review in Conakry from August 15 to 18, 2012, and subsequently with the USAID/Guinea's Financial Management Office in Dakar, Senegal. As of September 18, 2012, USAID/Guinea had obligated \$1,995,224 and disbursed \$275,573.

## Methodology

To answer the review objective, we interviewed officials from USAID/Guinea and OIC Guinea. We also reviewed and analyzed relevant documents at the mission and OIC Guinea offices. The documentation included the cooperative agreement, performance management plan, the OIC Guinea annual budget, monitoring plan, annual work plan, and advance requests. The review team also reviewed the agreement officer's files, including the request for application, the recipient's application, the action memo requesting approval of OIC Guinea's project proposal, the TEC memo, and the agreement officer's negotiation memo.

The team also reviewed the mission's compliance with the requirements to document program performance. Those requirements included ADS Chapters 202, 203, and 303, Contract Information Bulletin 92-17 and other applicable policies, procedures, and management controls.

We then evaluated the mission's compliance with the relevant program management controls and policies.



# MANAGEMENT COMMENTS



Date: November 21, 2012

## MEMORANDUM

**TO:** Gerard Custer, Regional Inspector General (RIG)/Dakar

**FROM:** Nancy Estes, Mission Director, USAID/Guinea & Sierra Leone

**SUBJECT:** Management Responses to RIG/Dakar Draft Report on Review of OIC Guinea Rural Microenterprise Development Activities in Guinea (report No. 7-675-xx-xxx-S)

On November 7, 2012, USAID/Guinea received the draft report on the subject Review of OIC Guinea Rural Microenterprise Development Activities in Guinea. We appreciate RIG's efforts in quickly responding to the Mission's assistance request to strengthen USAID/Guinea's operations to plan and implement local grants in support of *USAIDFORWARD*. USAID/Guinea also appreciates RIG's support to fully address specific issues identified during the review.

The Mission has already taken significant actions for each recommendation in supporting our request for management decisions to be issued for all five recommendations. In addition, we are requesting that recommendations one, two and five be closed upon issuance of the final report.

Details as follows:

Overall, USAID would like to underscore the positive impact the Opportunities Industrialization Centers (OIC) Guinea Rural Microenterprise Development Activities has made towards establishing five (5) Small Medium Enterprises, (SME) in the Foutah region of Guinea. Farm production has doubled and the farmers are transforming their products into other by products.

The following is our response to the review recommendations:

Management Comments – Review of OIC Guinea Rural Microenterprise Development Activities in Guinea.

**Recommendation #1:** We recommend that USAID/Guinea develop and implement a plan for periodic internal review of award files for a complete history of award transactions. Results of the review should be noted for corrective action.

USAID/Guinea concurs with this recommendation, and request that a management decision be issued and final action taken in the final report. The Mission has developed and implemented a plan for periodic review of award files for a complete history of award transactions (see attached). A procurement team led by USAID/Guinea's Technical Office (TO) have been established to work in conjunction with OAA and OFM to develop, formulate and implement the review of all award files. OAA and OFM in conjunction with the TO team has developed a periodic review plan for all award files. USAID/Senegal provided the Mission with a sample Mission Order and an Award File **checklist** which will be utilized to ensure that award files contain the required documentations based on current ADS policy. The plan has already been implemented with the new AOR of the OIC activity taking appropriate actions to update the award files as per ADS policy and as per the findings of the RIG review. Results of the review of the entire portfolio will be noted for corrective actions.

**Recommendation #2:** We recommend USAID/Guinea develop and establish a procurement plan to ensure the proper solicitation and receipt of proposals as well as the composition of the technical evaluation committee.

USAID/Guinea concurs with this recommendation, request that a management decision be issued and final action taken in the final report. The Mission has taken actions to strengthen its procurement process by developing and establishing an updated procurement plan to ensure proper solicitation and receipt of proposal as well as the composition of the Technical Evaluation Committee (see attached procurement plan). A procurement plan was developed after issuance of the OIC grant which tracks all procurement actions, pending clearances and approvals by the Acquisition and Assistance office in USAID/Senegal. Our technical office lead is working actively with the Acquisition and Assistance Office (OAA) in Dakar to streamline, improve oversight and control, and establish a transparent process. In addition, a Procurement Team is in place which is tasked with improving the Mission's procurement process. The Technical Office will lead this process which includes monitoring as part of its oversight mandate. Currently, all un-solicited proposals some of which are received by the U.S. Embassy are stored and logged by the Mission's Program Office (PO) to initiate the review and evaluation process. Once an unsolicited application is received in the PO (Program Office), it is logged in by the Innovation Unit's Administrative Assistant, a section of the Program Office. After log in, the unsolicited application is given to the Office chief of the PO or his/her designee to conduct a strategic review. All solicited proposals are received by OAA (Office of Acquisition and Assistance) and is available only to the TEC (Technical Evaluation Committee) during the selection process. The TEC members are currently selected by the OAA in USAID/Senegal and reviewed by the Mission Director. In addition, the Mission has issued Mission Order No. MO 303.3 (Unsolicited Application) which supersedes MO 303.1 effective November 9, 2012.

**Recommendation #3:** We recommend that USAID/Guinea amend the cooperative agreement with OIC/Guinea to delete section A.3.4 and A.3.5 regarding advances and replace with a provision for normal advance.

USAID/Guinea concurs with this recommendation and request that a management decision be issued in the final report. Prior to this review, USAID/Guinea's Office of Financial Management (OFM) performed a financial review that revealed no justification for the advance of 30 percent

of the award amount and recommended an amendment of the Cooperative Agreement (CA). Action was initiated by the USAID/Guinea's OAA to amend the agreement and USAID/Senegal's OAA is in the process of amending sections, A.3.4 and A.3.5 of the cooperative agreement regarding advances and replace with a provision for normal advance. On October 29, 2012, a meeting was held between the AOR and the implementing partner to discuss, reduction of the scope of work, establishing baseline indicators and developing realistic and measurable results indicators. Final action taken will be when the CA is amended and issued. **Target completion date is December 31, 2012.**

**Recommendation #4:** We recommend that USAID/Guinea approve the OIC/Guinea activity monitoring plan.

USAID/Guinea concurs with this recommendation and request that a management decision be issued in the final report. The Agreement Officer Representative (AOR) is working with the partner to develop an activity monitoring plan. The plan covering an initial period of three (3) months will be evaluated and approved by the AOR. Final action taken will be when the Mission approves the OIC monitoring plan. **Target completion date is March 31, 2013**

**Recommendation #5:** We recommend that USAID/Guinea request OIC Guinea to submit a request for approval of key personnel.

USAID/Guinea concurs with this recommendation, request that a management decision be issued and final action taken in the final report. Prior to this review, USAID/Guinea's OFM performed a financial review that revealed a change in key personnel without prior approval by the AOR/AO. This finding was further confirmed during the RIG review. The AOR has requested the grantee (OIC) to submit a request for approval of key. The request was received by the Agreement Officer on November 19, 2012, and would be approved by Nov. 30, 2012 (**see attached**).

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