



*Office of Inspector General
for the Millennium Challenge Corporation*

June 03, 2012

Mr. Patrick Fine
Vice President of Compact Operations
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

Subject: Review of MCC-Funded Project Activities in Benin
(Report No. M-000-12-005-S)

Dear Mr. Fine:

This letter transmits the Office of Inspector General's final report on "Review of MCC-Funded Project Activities in Benin." In finalizing the report, we considered the Millennium Challenge Corporation (MCC)'s written comments on our draft report.

The report contains three recommendations to address (1) the sustainability of MCC's investment in the port of Cotonou and (2) the deobligation of unused compact funding. MCC agreed with all three of our recommendations. We consider that management decisions have been reached on all three recommendations. Final action will take place on Recommendations 1, 2, and 3 when MCC provides our office with a copy of its communication to the Government of Benin and all compact funding is fully deobligated.

We appreciate the cooperation and courtesy extended to our staff during this review.

Sincerely,

/s/

Richard J. Taylor
Deputy Assistant Inspector General for Audit
Millennium Challenge Corporation

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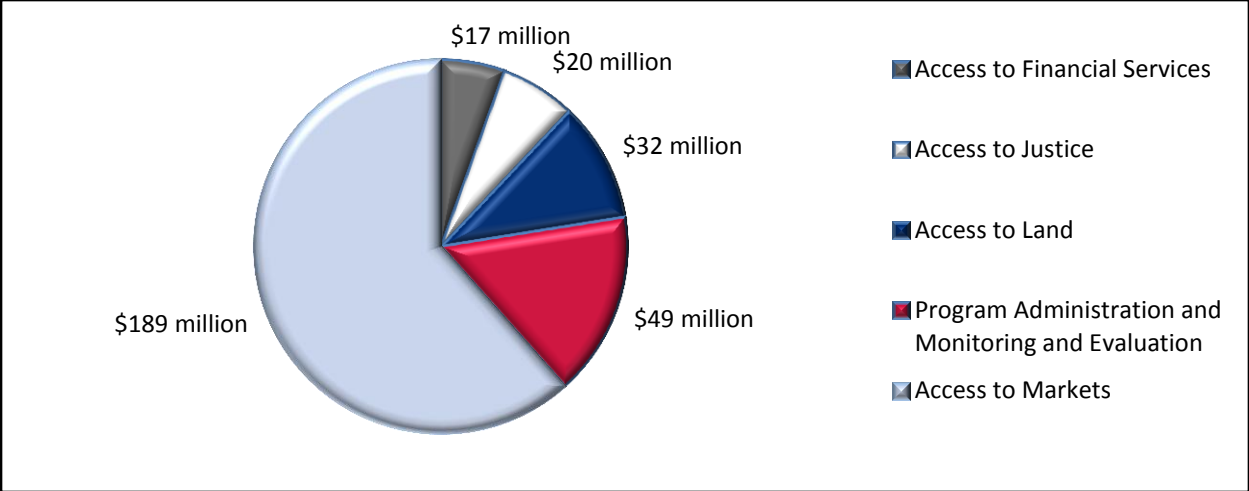
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SUMMARY

On February 22, 2006, the Millennium Challenge Corporation (MCC) signed a 5-year, \$307 million compact with the Government of Benin. The compact's goals were to improve core physical and institutional infrastructure and to increase private sector activity and investment. The 5-year implementation period for the compact went from October 6, 2006, to October 6, 2011. However, since MCC gave Millennium Challenge Account (MCA)-Benin another 120 days to close out all the activities, the final date for MCA-Benin's closure was February 3, 2012.

The figure below illustrates the funding amounts for the various project activities under the Benin compact, as modified during implementation. Most funds were allocated to a project that involved rehabilitating and expanding the port of Cotonou (the Access to Markets Project, which also included related designs and reform efforts). This project consumed \$189 million (62 percent) of the total \$307 million.

Composition of MCC's Compact With Benin



Operational since 1965, the port of Cotonou is a transit point for the neighboring land-locked countries of Burkina Faso, Chad, and Niger. It is also a port relay for Nigeria. Thus, the port's sustainability and security are important and have regional significance for commerce and development in West Africa.

Our review focused on the sustainability of MCC's investments in the port of Cotonou under the Access to Markets Project. In addition, the review covered residual MCC funding that could be deobligated and reprogrammed. We had two objectives: (1) determining whether there were any significant issues or problems that could prevent the sustainability of the MCC-funded improvements and expansion of the port, and (2) determining the amount of any outstanding and unused compact funds, as well as the status of and plan for collecting and returning those funds.

Regarding the first, the review found several issues that are critical to the port's long-term sustainability.

- **The port of Cotonou lacked management continuity.** There have been five general managers in the past 5 years. This turnover problem was first reported in a prior Office of Inspector General (OIG)/MCC audit report¹ (M-000-10-001-P) on MCA-Benin issued March 31, 2010, and it continues. The most recent general manager had been in the position for about 3 months at the time of our review. We believe this constant turnover in management has hindered the creation of a port security management plan.
- **The port of Cotonou's security needs improvement.** The port's harbor master estimated that he currently has about 90 security personnel, far fewer than the 150 employees he thinks are necessary. While there are different estimates regarding the number of security personnel needed, all agree that the current number is insufficient and that significant training would be needed.

Regarding the unused compact funding, MCC will need to deobligate an estimated \$5.4 million. This amount is an estimate because the final independent financial audit of MCA-Benin had not been completed.

This report recommends that MCC:

1. Prepare a letter to the Government of Benin expressing MCC's concerns regarding management continuity at the port of Cotonou (page 3).
2. Ensure that the port of Cotonou completes a formal port security management plan that addresses the need to fund security adequately (page 4).
3. Ensure that the estimated \$5.4 million in unused Benin compact funding is deobligated (page 5).

Detailed results of this review appear in the following section. The scope and methodology are included in Appendix I. The full text of management comments is in Appendix II, and OIG's evaluation of those comments can be found on page 6.

¹ "Audit of the Millennium Challenge Corporation's Access to Markets Project in Benin."

REVIEW RESULTS

Port of Cotonou Lacked Management Continuity

There have been five general managers (GMs) at the port of Cotonou since the compact entered into force in October 2006. This continual turnover has hindered port operations. The Benin compact summary states, “Sustainability will be ensured through training, capacity building, policy reforms, and institutional changes.” The consulting firm Inros Lackner AG, contracted by MCA-Benin to serve as port adviser, also made the following recommendation:²

The No. 1 Recommendation in our Final report, which is the most important recommendation of this work, is that the Appointment of the GM of the Autonomous Port of Cotonou be made in the future according to his managerial qualities and professional capacity, based on a renewable contract of 5 years and provided with a guideline document stating the objectives to achieve. We are convinced that it is the only way to make the Port of Cotonou prosperous for long-term, stabilize its position in the Sub-region and increase its Authority to allow it to play its role in the national economy.

Although management continuity was discussed also in a 2010 OIG/MCC audit report, the turnover problem still had not been addressed at the time of our review. In fact, the GM we met during our review had been in the job for about 3 months, and so had the port’s harbormaster, who is responsible for security.

It was difficult for MCA-Benin to address the problems with management turnover because the port GM is a political appointee to the Port Authority of Cotonou (PAC)—and therefore he or she serves at the pleasure of the President of Benin. The lack of stable leadership will continue to hurt the planning, effectiveness, efficiency, and sustainability of port activities. Constant turnover in management makes it difficult for PAC to consistently and adequately plan development and training activities. Long-term strategies and plans can be implemented sufficiently and resources used most effectively only with consistent management.

Benin is eligible to develop a proposal for a second compact. Should it do so, we believe that an evaluation of the proposal should take into account the Government of Benin’s commitment to the sustainability of MCC-funded project activities. We believe that a letter should be forwarded by the U.S. Ambassador in Benin to the President of Benin. Ideally, political influences on the port GM appointments would be minimized, and a qualified GM should be in place for at least 3 years to implement policies and long-term plans. The Ambassador agreed with the auditors and stated his willingness to forward a letter, if prepared by MCC.

Recommendation 1. We recommend that the Millennium Challenge Corporation Vice President, Compact Operations, prepare a letter to the Government of Benin expressing MCC’s concerns regarding management continuity at the port of Cotonou.

² Final Report of the Port Advisor of MCA-Benin to the General Manager of the Autonomous Port of Cotonou.

Port Security Needs Improvement

The rehabilitation and expansion of the port of Cotonou under the compact included upgrading the security system and security operations. However, the port did not have enough trained security employees to secure its operations. MCA-Benin's project management consultants (PMC) calculated that the port needed 257 security employees who work in three 8-hour shifts over a 24-hour period. However, the harbormaster—who is responsible for overall port security—estimated that about 150 people would be enough. He said he had about 90, far fewer than he thinks are necessary to keep the port secure.

The difference between the PMC's and the harbormaster's estimates represents a difference in opinion. We believe that the PMC's estimate for 257 incorporates the optimum level of personnel, taking all conditions into account, and may be more objective. However, all agree that the current number of 90 is insufficient and that employees will need significant training. The harbormaster said he doesn't have adequate funding to secure the port. Furthermore, he said he did not know how much funding the government would allot for security in the future. We believe that this shortage of security personnel also could result from the lack of management continuity at the port.

The problems stemming from the shortage of employees became apparent when a contractor installed an integrated electronic security system. In this case, the contractor, United Telecoms Limited (UTL), did not train as many staff members as planned because PAC did not provide enough employees to learn how to use the computerized security system. The PMC team leader and his deputy expressed concern about the adequacy of personnel provided to be trained on the system as well as concern about the port's overall security. In a letter to the PMC dated July 1, 2011, UTL said the number of available security staff members was inadequate; "The list that PAC provided to us listed approximately 40 people who could be deemed as operational security personnel . . . This is insufficient for a port with six vehicular access points, a variety of zones, and a round-the-clock operation."

The letter included an estimate, as an attachment, that about 257 people would be needed to secure the port adequately, including the operation of the electronic security system. Although we could not verify exactly how many security employees work at the port, all evidence indicates that it needs more. Consequently, the MCC-funded integrated electronic security system and other related infrastructure may not be utilized and maintained to their full potential.

Since the port may not be able to maintain a sufficient number of employees because of a lack of planning and resources, it could be more vulnerable to theft and vandalism. Adequate security is important also to minimize health and safety risks. Some yellowcake (partially concentrated uranium ore) is shipped through the port of Cotonou each year. While yellowcake itself does not pose a high-level security risk, it could pose a health and safety risk.

Recommendation 2. We recommend that the Millennium Challenge Corporation Vice President, Compact Operations, ensure that the port of Cotonou complete a formal port security management plan that addresses the need to fund port security adequately.

MCA-Benin Compact Will Have Unused Funding of \$5.4 Million That Needs Deobligating

On February 21, 2012, MCC estimated that \$5.4 million will remain unused from the initial \$307 million obligated under the compact; this was an estimate because at the time of our review the final independent financial audit of MCA-Benin had not been completed. According to MCC and the program closure plan, any funds not disbursed after the expiration of the compact and the 120-day closure period will be deobligated by MCC. Separately, subsequent to our fieldwork, MCC notified us that all MCA-Benin bank accounts had been closed and that all MCC funding in such accounts (approximately \$80,000) had been transferred to MCC.

Obligated funds that are not used for compact activities after the expiration of the compact and the 120-day closure period should be appropriately deobligated so that they may be released from compact commitment and used for other purposes by MCC. Therefore, the unused compact funds from completed activities should be deobligated as soon as possible and in accordance with MCC's *Compact Financial Management Policy and Procedure Manual*. OIG recommends that MCC identify the exact amount of funds remaining after compact expiration and deobligate this funding.

Recommendation 3. *We recommend that the Millennium Challenge Corporation Vice President, Compact Operations, and the Vice President, Administration and Finance, ensure that the estimated \$5.4 million in unused Benin compact funding is deobligated.*

Follow-Up on Prior OIG/MCC Audit Recommendations

The previous OIG/MCC audit report on MCA-Benin mentioned a signed contract that included \$1.9 million worth of prohibited goods. Specifically, the contract included the purchase of patrol boats with machine guns, which were not allowed according to the terms of the Benin compact. OIG recommended that MCC modify the contract to exclude the purchase.

In accordance with generally accepted government auditing standards, we followed up on this recommendation during our review. After studying the amended contract, we determined that a management decision was reached and that MCA-Benin took the appropriate final action to rectify this situation. As a result, the \$1.9 million could be better used to advance the compact's goals.

EVALUATION OF MANAGEMENT COMMENTS

On April 18, 2012, MCC provided a formal response to our draft report (included in Appendix II). In its comments, MCC agreed with all three of our recommendations.

MCC agreed with **Recommendation 1**, to prepare a letter to the Government of Benin expressing MCC's concerns regarding management continuity at the port of Cotonou. Throughout the compact period, MCC has communicated its concerns regarding management continuity to the government. MCC agreed to do so once again by the end of June 2012. OIG considers that a management decision has been reached. However, final action cannot take place until MCC provides our office with a copy of its communication to the Government of Benin.

MCC agreed with **Recommendation 2**, to ensure that the Port of Cotonou completes a formal port security management plan that addresses the need to adequately fund port security. Previously MCC communicated its concerns to the government about security and the fact that the port has not implemented a comprehensive security management plan. MCC will ask the Government of Benin to pursue this recommendation with the port by the end of June 2012 and will continue to monitor the adequacy of port security as part of the second compact development process. OIG considers that a management decision has been reached. However, final action cannot take place until MCC provides our office with a copy of its communication to the Government of Benin.

MCC agreed with **Recommendation 3**, to ensure that \$5.4 million in unused compact funding is deobligated. MCC will ensure that the funds are deobligated in a timely fashion in accordance with applicable MCC internal procedures. For Recommendation 3, OIG considers that a management decision has been reached. However, final action cannot take place until the unused compact funding is fully deobligated.

SCOPE AND METHODOLOGY

Scope

OIG conducted this review of MCA-Benin to determine whether there were any significant issues that could prevent adequate sustainability of the improvements and expansion of the port of Cotonou. We also conducted the review to determine the amount of any outstanding and unused compact funds. We primarily focused on the sustainability of the MCC-funded improvements at the port rather than on its overall operating sustainability. The improvements included the construction of a new wharf and a wall to reduce sedimentation, road construction and rehabilitation, and the installation of an integrated electronic security system.

Although this review was not an audit, we conducted the review in accordance with *Government Auditing Standards*, specifically Chapters 3 and 7, Sections 7.55 and 7.72 to 7.79. We planned and performed this review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

We conducted the fieldwork from October 16 to November 2, 2011, in Cotonou and at MCC's headquarters in Washington, D.C. OIG selected Benin because its compact ended on October 6, 2011, and the timing of closeout facilitated our review objectives.

Methodology

The review team met with MCC staff members in Washington, D.C., as well as with MCA-Benin and MCC staff members in Benin. We also conducted multiple site visits to the port of Cotonou.

To answer the objectives, the team:

- Interviewed pertinent MCA-Benin personnel responsible for overseeing the port of Cotonou's infrastructure projects and other compact activities.
- Interviewed personnel from PMC.
- Interviewed the port's GM and harbormaster.
- Interviewed personnel responsible for installing the integrated security system at the port.
- Analyzed pertinent financial reports and related documents and interviewed responsible financial personnel.

MANAGEMENT COMMENTS



Date: April 18, 2012

To: Mr. Mark S. Norman, Acting Deputy Assistant Inspector General for Audit
Millennium Challenge Corporation

From: Mr. Patrick Fine, Vice President /s/
Department of Compact Operations
Millennium Challenge Corporation

Subject: Review of MCC-Funded Project Activities in Benin
(Report No. M-000-12-00X-S)

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the Office of Inspector General's (OIG) report entitled "Review of MCC-Funded Project Activities in Benin". MCC's specific responses to the three recommendations in the report are detailed below. In addition to providing a response to the audit recommendations, this serves as MCC's management decision.

Recommendation No. 1. We recommend that the Millennium Challenge Corporation Vice President of Compact Operations prepare a letter to the Government of Benin expressing MCC's concerns regarding management continuity at the Port of Cotonou.

MCC Response: MCC agrees with the recommendation. MCC has been concerned about the continuity of management at the Port of Cotonou throughout the implementation of the Compact, a concern that MCC has communicated to the Government of Benin through written and oral meetings during the Compact period. MCC agrees to once again communicate the importance of management continuity to the Government of Benin and the Port of Cotonou by the end of June 2012.

Recommendation No. 2. We recommend that the Millennium Challenge Corporation Vice President of Compact Operations ensure that the Port of Cotonou completes a formal port security management plan that addresses the need to adequately fund Port security.

MCC Response: MCC agrees with the recommendation. MCC has previously communicated to the Government of Benin its concerns about Port security and the fact that a comprehensive port security management plan has not been developed and implemented (including adequate funding) by the Port of Cotonou. MCC will, by the end of June 2012, again request that the Government of Benin pursue this recommendation and will continue to monitor the adequacy of Port security as part of the second Compact development process.

Recommendation No. 3. We recommend that the Millennium Challenge Corporation Vice President of Compact Operations and the Vice President of Administration & Finance ensure that the estimated \$5.4 million in unused Benin compact funding is de-obligated.

MCC Response: MCC agrees with the recommendation. MCC will ensure that these funds are de-obligated in a timely fashion in accordance with applicable MCC internal procedures. Subject to finalization of the final quarterly financial report and completion and approval of the final audit report, the precise amount of unexpended funding will be determined and will be de-obligated by MCC's Department of Administration and Finance.

The actions specified above constitute Management Decision for all three of the above recommendations. If you have any questions, please contact Pat McDonald, MCC Compliance Officer, at 202-521-7260.