USAID
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OFFICE OF INSPECTOR GENERAL

AUDIT OF AFRICAN DEVELOPMENT FOUNDATION'S MONITORING, REPORTING AND EVALUATION SYSTEM

AUDIT REPORT NO. 9-ADF-05-008-P
August 17, 2005

WASHINGTON, DC

Office of Inspector General

August 17, 2005

MEMORANDUM

TO: African Development Foundation, President Nathaniel Fields

FROM: IG/A/PA Director, Steven Bernstein /s/

SUBJECT: Audit of African Development Foundation's Monitoring, Reporting and Evaluation System (Report No. 9-ADF-05-008-P)

This memorandum transmits our final report on the subject audit. In finalizing our report, we considered your comments on our draft report and have included the first 15 pages of your response in Appendix II. However, the 42 pages of guidelines and documents attached to your response are not included in Appendix II.

This report contains 14 recommendations, including 10 recommendations to improve African Development Foundation's (ADF) monitoring, reporting and evaluation of its development grants, 2 recommendations with costs savings of $101,000 and $135,000, and 2 recommendations regarding costs to be recovered and supported of $146,002 and $450, respectively. In your written comments, you concurred with these recommendations, the dollar amounts and identified planned or completed actions to address our concerns. Consequently, we consider all recommendations to have received a management decision. ADF's audit committee must determine final action on these recommendations, and we ask that we be notified of the audit committee's actions.

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

cc: Board of Directors, African Development Foundation

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SUMMARY OF RESULTS

The Performance Audit Division of the Office of Inspector General conducted an audit of the African Development Foundation (ADF) to determine if it had a monitoring, reporting, and evaluation system to effectively manage its activities (see page 2). As a result of our audit, we concluded that ADF had a system for monitoring, evaluating and reporting on its activities; but in several cases, as discussed below, there were weaknesses within the system, and the system was not properly implemented to effectively manage ADF's activities (see page 4). We noted weaknesses in both ADF's grant close-out and financial audit processes (see pages 4 and 9). Furthermore, weak implementation of its monitoring, evaluating and reporting system resulted in inaction on a GAO decision (see page 11), cost over-runs of almost 50 percent at its Jigawa housing projects (see page 6), and improper and unsupported costs of \$146,002 and \$450 respectively (see pages 13 and 12). Lastly, unless the relationship with the current partner organization that monitors, evaluates and reports on ADF-funded activities in Namibia is extended or a replacement partner is found, after September 30, 2005, ADF will not have a partner organization in Namibia to monitor its activities (see page 5.)

This report includes a total of 14 recommendations to: (1) strengthen the grant close-out process (see page 5); (2) improve the financial audit process (see page 10); (3) ensure partner organizations are involved in all projects in their country(s) of responsibility (see page 8); (4) audit the Jigawa projects' expenditures (see page 9); (5) identify a partner organization for Namibia (see page 6); (6) deposit funds into the U.S. Treasury as instructed by the GAO decision (see page 12); (7) recover \$146,002 that was paid improperly by ADF for the medical related costs of a consultant (see page 14); and (8) obtain documentation to account for the \$450 advanced to a consultant (see page 12).

ADF provided extensive comments on the draft report, including 15 pages of comments, a 27 page attachment of its "Field Audit Guidelines and Instructions" and 15 pages of documents. ADF agreed with and detailed actions it has taken or plans to take to implement all fourteen recommendations in the report. Based on our review of their comments, we consider that management decisions have been reached on all of these recommendations. However, to attain final action on the recommendations, ADF's audit committee must determine and notify us that final action has been taken (see page 15) ADF's 15 pages of comments are included in Appendix II to this report (see page 19).

BACKGROUND

The African Development Foundation (ADF) was established as a government corporation by the United States Congress in 1980 and began active program operations in 1984. ADF is authorized to award grants, loans, and loan guarantees to African private or public groups, associations or other entities engaged in peaceful activities. ADF provides funding to empower grassroots groups to solve their problems in a self-reliant manner, while advocating the adoption of participatory development practices as fundamental to achieving broad-based economic growth and sustainable development in Africa. ADF has programs in 15 African countries: Benin, Botswana, Cape Verde, Ghana, Guinea, Mali, Namibia, Niger, Nigeria, Senegal, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. In fiscal year 2004, ADF had an appropriation of approximately $18.7 million and program expenditures of approximately $13.5 million.

On October 17, 2004, ADF implemented a new organizational structure, describing new roles and responsibilities of its staff members within various ADF/Washington headquarters' offices. As well, the new structure is designed to ease communication among ADF (1) Washington headquarters staff, (2) contracted country representatives, and (3) local partner organizations. The new structure arranged ADF into five main divisions: Office of the President, Field Operation Division, Development Policy and Knowledge Dissemination Division, Management Division, and Finance Division.

In the majority of countries where ADF operates, it has established (1) a country representative office for screening grant applications, monitoring project implementation, and assessing project and program impact; and (2) a partnership with an indigenous nongovernmental organization (NGO) that assists grassroots groups with all aspects of project development and implementation. By working in partnership with the local NGO—and strengthening its capacity—ADF aims to promote locally owned, sustainable development solutions and establish self-supporting and sustainable local development agencies.

In November 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. This audit is the second of ADF field activities by the Office of Inspector General, and it was initiated to follow up on the first audit, which had 11 recommendations.[1] Of the 11 recommendations from the first report, 7 were implemented and 4 remain open.

AUDIT OBJECTIVE

As part of the Office of Inspector General's fiscal year 2005 audit plan, this audit was conducted as a follow-up audit to a February 2003 performance audit entitled "Audit of Awarding and Monitoring of Grants by the African Development Foundation." The earlier audit found, among other things, that ADF did not implement an effective system to monitor its

[1] Audit report number 9-ADF-03-005-P, dated February 28, 2003, and was the last ADF performance audit performed by USAID OIG.

projects. This follow-up audit was conducted to determine if ADF subsequently implemented an effective monitoring system that allows it to track and document grantee progress toward achieving its objectives.

The audit was conducted to answer the following question:

- Did the African Development Foundation have a monitoring, evaluation, and reporting system to effectively manage its activities?

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

AUDIT FINDINGS

ADF had a system for monitoring, evaluating and reporting on its activities. However, in several cases (as discussed below), there were weaknesses within the system, and the system was not properly implemented to effectively manage its activities.

ADF's Monitoring of Its Grant Close-Out Process Needs Improvement

Summary: ADF has not effectively managed its grant close-out process. The ADF Policy Manual requires that grant closeouts be completed no later than 150 days after the termination or expiration of the grant and that excess grant funds be deobligated. However, ADF did not have procedures that clearly defined responsibility for ensuring that grant closeouts were performed in line with ADF policy. Additionally, ADF did not have an adequate financial management system in place to facilitate the efficient closeout of grants. As a result, ADF, with only about 186 active grants, has a backlog of 161 expired grants needing closeout.

ADF policy requires that grant closeouts be completed no later than 150 days after the termination or expiration of the grant and that excess grant funds be de-obligated. Nevertheless, ADF, with only about 186 active grants, currently has 161 grants that are overdue for closeout. The expiration dates for these grants go back as far as October 31, 2001, and span 14 African countries. According to unaudited data provided by ADF's Chief Financial Officer (CFO), these grants total $2,040,287 in unexpended and/or unaccounted-for funds due from grantees and an additional $948,644 in obligated but undisbursed funds that could potentially be deobligated. This situation arose because (1) ADF did not have a financial management system that facilitated the efficient closeout of grants and (2) ADF did not have procedures in place that clearly defined responsibility for the grant close-out process.

Currently, ADF uses a database to track the status of its grant funds. Three key components of this system—the table recording budget information, the table recording expenditures, and the table recording disbursements—each stand alone without any connection to the other key tables. As a result, these three unrelated tables must be manually combined in a spreadsheet to provide an overview of each grant's activities. Moreover, ADF has to reconcile the information in its database to the grantee financial reports during the close-out process. This inability to easily produce accurate and useful reports from the grants database hampers ADF's management of the grant close-out process. This situation is intensified by ADF's lack of procedures clearly defining grant close-out responsibilities, which also caused delays in grant closeouts. For field operations, the ADF policy manual was outdated[2], and for ADF headquarters staff, there was a lack of clarity as to who had responsibility for the various aspects of grant closeout.

ADF is taking action to improve in this area. For example, ADF officials indicated that they have hired a contractor to create a new grants database which is expected to be Internet-based, will provide greater control over disbursements and will incorporate program performance information. Additionally, during late 2004 and early 2005, ADF reorganized its

[2] The African Development Foundation issued an updated policy manual dated February 11, 2005; section 633 refers to grant closeouts.

headquarters functions and revised its grant close-out policy, which served to clearly define ADF Washington staff close-out responsibilities and consolidate those functions—which had previously been spread among several departments—within one headquarters department.

By taking action to improve its database and formally define the roles for its field operations and headquarters staff, ADF has taken steps to better manage its close-out process. Nevertheless, at the time of the audit 161 grants were overdue for closeout and ADF could not easily produce accurate and useful reports to support the closeout process. Thus, we recommend that ADF implement the following two recommendations to further strengthen its close-out process.

> *Recommendation No. 1: We recommend that the African Development Foundation close out expired grants and take immediate action to recover all material amounts due from grantees and, as necessary, de-obligate undisbursed funds.*

> *Recommendation No. 2: We recommend that the African Development Foundation assign close-out responsibilities to key individuals.*

ADF Needs to Identify a Replacement Partner Organization in Namibia

Summary: ADF policy requires that a partner organization be available in a country to monitor, evaluate and report on the development activities in the country for which it has responsibility. ADF and its current partner organization in Namibia have mutually agreed not to renew their cooperative agreement, but ADF has not taken formal action to identify a replacement partner. As a result, at the end of the current agreement—September 30, 2005—ADF will not have a partner organization in Namibia to monitor, evaluate and report on ADF's development activities there. Furthermore, with the limited time available before the current cooperative agreement expires, the new partner organization—if found—may not have sufficient time to develop an adequate knowledge of the existing grants and ADF's monitoring, evaluating and reporting requirements.

Effective monitoring of grant activities is crucial to the success of those activities. In pursuing its mission, ADF relies heavily on its partner organizations in the implementation, monitoring, and reporting of grant activities. According to ADF policy[3], a partner organization (1) is the primary technical assistance provider to the grantee and (2) monitors the activities and performance of all projects in its country. The partner is also responsible for sending monthly reports on grantee activities to ADF headquarters. In the case of ADF and its partner organization in Namibia, the cooperative agreement between ADF and its Namibian partner specifically assigns monitoring, evaluating and reporting responsibilities to the partner organization.

ADF and its current partner in Namibia have mutually agreed not to renew their cooperative agreement, which was to expire in July 31, 2005 but has been extended to September 30, 2005. As of May 2005 ADF had not identified a replacement partner.

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[3] ADF Manual Section 630

Without a partner organization in Namibia, the success of ADF's activities in Namibia will be at risk. Without an in-country partner organization, monitoring, evaluating and reporting will become the responsibility of the country representative in neighboring Botswana as supplemented by intermittent visits from ADF Washington-based staff. There will be increased risk that ADF's current and planned development activities in Namibia may not be properly monitored, reported and evaluated. Furthermore, with the limited time available before the current cooperative agreement expires, the new partner organization—if found—may not have sufficient time before assuming responsibility to develop an adequate knowledge of the existing grants and ADF's monitoring, evaluating and reporting requirements. Thus, for the above reasons, we are making the following recommendations.

Recommendation No. 3: We recommend that the African Development Foundation replace its partner organization in Namibia as soon as possible.

Recommendation No. 4: We recommend that the African Development Foundation defer implementing new development projects in Namibia until it has a replacement partner organization in Namibia to monitor, report and evaluate its in-country activities.

ADF Did Not Adequately Monitor and Evaluate the Jigawa Housing Projects

Summary: Project monitoring is an important element in tracking grantee progress in achieving project goals, and ADF policy requires a variety of monitoring techniques to ensure project goals are met. However, ADF did not adequately monitor and evaluate the progress or expenditures of its four Jigawa, Nigeria housing projects. ADF did not assign monitoring and reporting responsibilities for these projects to its Nigerian partner organization, but instead relied on the implementing entity to monitor and report on its own activities. As a result, actual costs exceeded the original budgeted amount by $350,000—42 percent more than originally budgeted. Construction was completed 6 months later than the targeted completion dates, and the quality of the construction was problematic.

In September 2002, ADF entered into grant agreements with four community groups[4] to construct 400 low-cost houses for flood victims in Jigawa State, Nigeria. ADF, together with the Jigawa State Government (JSG), which had agreed to contribute 50 percent of the total estimated funding for the project, hired consultants—the Project Management Team (PMT)—to assist in the implementation of this $820,000 project. The four projects had targeted completion dates of September 30, 2003.

During the audit, we determined that ADF did not adequately monitor and evaluate the progress of the Jigawa housing projects. Effective monitoring of projects is an important element in tracking grantee progress towards meeting project goals and objectives, keeping apprised of any project implementation problems and facilitating prompt resolution of issues that might threaten project success. In fact, ADF policy incorporates a variety of monitoring techniques. For example, it requires that monitoring plans—including project site visits and the assignment of monitoring responsibilities—be prepared for each project. It also requires that

[4] The grantees were Auyo Youth Association, Marawa Youth Self Help Group, Nassarawa Farmers Association, and Gululu Social and Development Association.

ADF partner organizations maintain substantial direct operational involvement with grantees to ensure that grants are effectively monitored. Lastly, ADF policy notes that the cognizant ADF representative (or other ADF program staff) is expected to visit each project at least annually and that the accuracy of the progress reports prepared and submitted by grantee be verified during those site visits.

Despite this conceptual emphasis on monitoring, we noted several issues that cast doubt on the effectiveness of ADF's monitoring. For instance, contrary to its above policy, ADF did not assign its Nigerian partner organization, Diamond Development Initiatives (DDI), to monitor the projects; instead, ADF relied on PMT to perform the monitoring, evaluation and reporting functions. Similarly, the PMT did not route financial and work progress reports to ADF through DDI, which could have verified the reports. Instead, ADF received the reports directly from the PMT, which frequently provided inaccurate data concerning the progress the grantee and the PMT were making in the construction of housing and in achieving the grant objectives.

In addition, ADF did not adequately monitor the projects' expenditures. PMT received project funds and made project expenditures without ADF's knowledge and authorization. During the first year of construction, ADF reported they had completed 85 to 95 percent of the work at all four sites as anticipated. However, this was not the case: the buildings required significant additional construction, and the PMT required significant additional funding to complete this work. Only after the project experienced financial overruns resulting in a budget increase did ADF finally instruct DDI to become more involved in monitoring and evaluating the project. Moreover, even though the project paper for the Jigawa Housing projects stated that ADF would have the projects audited, ADF instead settled for a financial review conducted by its internal auditor and did not include these projects in its list of grants to be audited for Fiscal Year 2005. This situation was exacerbated by the fact that ADF did not have a country representative present on the ground in Nigeria. At the time the project was in progress, ADF's country representative for Nigeria was stationed in Washington, DC. The country representative's absence from Nigeria hampered his ability to manage the project.

As a result of ADF's lapses in monitoring and evaluating these projects:

- The cost of the projects exceeded the original budgeted amount by about $340,000, raising the total budget to $1,160,000.

- PMT completed the projects 6 months after the targeted completion dates, which was 50 percent longer than anticipated. Although ADF had reported that the projects were 85 to 95 percent complete within the first year, the actual completion dates exceeded the prescribed one-year timeframe by 6 months.

- As can be seen in the following photographs, the quality of the workmanship was questionable. At the time of the audit fieldwork, doors were already falling off the buildings, termites had infested the walls and wooden frames, cement and brick walls were crumbling, and there was a lack of proper drainage.

Photograph of a house with door that came off Its hinges, Marawa Jigawa (December 2004)

Photograph of poor drainage next to the side of a house, Marawa, Jigawa (December 2004)

Photograph of a crumbling wall within the compound of houses, Marawa, Jigawa (December 2004)

To avoid the problems that occurred with the Jigawa housing projects, ADF should develop a policy and perform the required audit as recommended below:

> *Recommendation 5: We recommend that the African Development Foundation require that the African Development Foundation's Board of Directors be immediately notified of any project where the country representative or partner organization is not actively engaged in the monitoring, evaluation and reporting of project activities.*

Recommendation 6: We recommend that the African Development Foundation engage a public accounting firm to conduct an audit of the project's expenditures, in accordance with the United States Generally Accepted Government Auditing Standards.

ADF Needs to Improve its Financial Audit Process

Summary: A 2003 USAID Office of Inspector General audit report made several recommendations to improve ADF's external audit function. These recommendations, if implemented, would have improved the financial audit process associated with grantees' expenditures of ADF funds. Although ADF agreed in 2003 to implement these recommendations, it has not yet done so. The management weaknesses which these recommendations addressed continue to exist because ADF has not allocated sufficient managerial resources to developing and managing its financial audit process. As a result, ADF has not effectively managed its non-federal financial audit process and has reduced assurance that its grantees' expenditures are reasonable, allocable and allowable.

In 2003 ADF agreed to implement several recommendations pertaining to its audit function. These recommendations were included in OIG Audit Report No. 9-ADF-03-005-P, issued on February 28, 2003, and stated that ADF should:

- Establish a minimum threshold for the value of grants that will be audited and establish annual audit plans to ensure that, at a minimum, all grants that exceed the threshold are audited at an appropriate point during the grant lifecycle (Audit Recommendation No. 6).

- Provide its annual audit plan to the OIG by October 1 of each fiscal year (Audit Recommendation No. 7).

- Establish and implement specific policies and procedures for an audit quality-control program designed to ensure that audits are completed in accordance with Foundation requirements and appropriate audit standards (Audit Recommendation No. 8).

- Develop procedures to ensure that audits of partner organizations are included in the Foundation's annual audit plan (Audit Recommendation No. 9).

- Contract with qualified U.S. or local accounting firms to conduct audits of funds provided to partners and require that these audits be subject to consistent and appropriate quality-control review by the Foundation's Internal Auditor (Audit Recommendation No. 10).

ADF's policy manual Section 332 includes its officially issued guidelines pertaining to grant and field audits. This section, which was in effect at the date of the above-mentioned audit, has not been officially modified or replaced to comply with the above recommendations. However, ADF is drafting amended guidelines to address these recommendations.

Nevertheless, at the time of our fieldwork, ADF had not yet complied with five previous OIG audit recommendations related to their financial audit process. More specifically, ADF had not:

- Formally established a minimum audit threshold level or an effective methodology for determining when and what grants should be audited during the grant lifecycle.
- Prepared and submitted on a timely basis (by the October 1 due date) its annual audit plan to USAID's OIG.
- Established procedures for or performed quality-control reviews of completed financial audits using generally accepted government auditing standards (GAGAS) and its own Guidelines to determine compliance with audit standards.
- Included its partner organizations in the scope of its annual audit plans.
- Contracted with qualified U.S. or local accounting firms to conduct audits, in accordance with GAGAS, of its partner organizations on an annual basis.

We found several reasons why ADF did not comply with and officially implement the above-mentioned recommendations. First, ADF has recently undergone a restructuring of its headquarters, which has resulted in a reduction of the number of employees focusing on the financial audit process from two to one. Additionally, in the last year, ADF hired a new CFO, further affecting its implementation of these recommendations. Regarding audits of its partner organizations, ADF said that they were unaware of the need to include the audits of partner organizations in its audit plan. Furthermore, ADF officials stated that they were unaware that approved CPA firms were not being used.

As a result, ADF has not effectively managed its non-federal financial audit process to help ensure accountability over funds it provided to grantees. Furthermore, ADF has reduced assurance that these funds are being expended as intended. To enhance ADF's accountability over funds provided to grantees and partner organizations, we are making the following recommendations.

Recommendation No. 7: We recommend that the African Development Foundation formally establish a minimum audit threshold level and an effective methodology for determining when its awards should be audited.

Recommendation No. 8: We recommend that the African Development Foundation, by October 1 of each year, prepare and submit a comprehensive annual audit plan to the USAID/OIG that includes its audit plans for grants and partner organizations.

Recommendation No. 9: We recommend that the African Development Foundation establish procedures to perform desk and quality-control reviews of completed financial audits, using the United States Generally Accepted Government Auditing Standards and its own audit guidelines, to determine compliance with audit standards.

Recommendation No. 10: We recommend that the African Development Foundation develop screening procedures to ensure the competency of the independent audit firms it selects to perform its external financial audits and, where possible, use independent audit firms already on the USAID Office of Inspector General's list of approved audit firms.

ADF Has Not Acted on a GAO Decision To Transfer Funds to the U.S. Treasury

Summary: ADF has not complied with a U.S. Government Accountability Office (GAO) decision recommending that it terminate its contract with the Government of Guinea and deposit any proceeds from the contract into the general fund of the U.S. Treasury as miscellaneous receipts. According to ADF, the delay in transferring the funds to Treasury was due to ADF's attempt to collect the total amount of funds due before making the transfer and to major personnel changes in the ADF finance office. Because of the delay in transferring funds to the Treasury, about $101,000 was not available for use by other U.S. Government programs.

The U.S. Code allows the heads of Federal agencies to request decisions on certain financial matters from the Government Accountability Office (GAO). The President of ADF requested a decision from GAO concerning funds that it receives from partnerships with certain African governments. In addressing ADF's partnership with the Government of Guinea (Guinea), GAO concluded that it—unlike ADF's other partnerships—involved a contract where Guinea pays ADF for services that ADF provides to certain development sites selected by Guinea, but which were not served by ADF grantees. GAO determined that ADF did not have the statutory authority to enter into contracts to provide services to Guinea and that ADF should (1) terminate those contracts[5] and (2) deposit any proceeds from those contracts into the general fund of the U.S. Treasury as miscellaneous receipts. ADF accepted this decision and planned to transfer funds received from Guinea to the U.S. Treasury.

At the time of our audit, ADF had received approximately $101,000 related to one of its contracts with Guinea. However, it had not yet received any payments for work that it performed under the other two contracts, the value of which was estimated at $134,918.[6] In addition, ADF had not initiated final action to collect the balance of the payments due.

Despite the fact that ADF agreed with the March 2003 GAO decision, none of the funds have been transferred to the U.S. Treasury. According to ADF management, the delay resulted from ADF's:

- Intention to collect the total amount due from Guinea before making the transfer to the U.S. Treasury.

- Major personnel changes in its finance office (such as a new Chief Finance Officer) that focused on other priorities.

[5] Although the GAO decision only makes reference to a single contract with Guinea, according to an ADF official, there were a total of three contracts between ADF and Guinea.

[6] ADF staff could not locate the relevant contract files. The estimated value of $134,918 was developed from available documentation.

An ADF official asserted that funds already received from Guinea would be transferred to Treasury by June 2005. Nevertheless, ADF's failure to transfer the payments received to the U.S. Treasury in a timely manner deprived the Treasury of needed funds and left ADF in noncompliance with GAO's decision.

We believe that ADF should act to rectify this situation as quickly as possible. Accordingly, we are making the following recommendations.

> *Recommendation No. 11: We recommend that the African Development Foundation transfer the $101,000 in funds it received from the Government of Guinea under its partnership contract for services provided to Guinea into the General Fund of the United States Treasury.*

> *Recommendation No. 12: We recommend that the African Development Foundation take action to collect the balance of payments of about $135,000 due from the Government of Guinea under two partnership contracts for services provided to Guinea but for which the Fund was never paid. If the payments are collected, the African Development Foundation should transfer the funds for deposit into the General Fund of the United States Treasury as miscellaneous receipts, but if the funds are not recoverable, the African Development Foundation should document in its records that the remaining payments are uncollectible.*

An ADF Payment Does Not Have Adequate Support

Summary: Federal Government standards for internal control require that all transactions need to be clearly documented. However, ADF issued a $450 travel advance—associated with a consultant of its Namibia partner organization—that has not been liquidated or supported with adequate documentation. ADF was unable to obtain an accounting of the travel expenses associated with the advance. As a result, ADF had less money available to fund its programs and operations.

The *Standards for Internal Controls in the Federal Government* state that all transactions need to be clearly documented. Nevertheless, during the audit, we noted that ADF had incurred and paid a travel advance of $450—associated with a consultant of its Namibia partner organization—that was not supported with adequate documentation. This advance continues to remain outstanding 23 months after the consultant stopped providing services for ADF. Travel advances are normally recognized as receivables and are only expensed once the advance has been liquidated by the traveler.

In explaining the unliquidated travel advance, ADF officials stated that a proper accounting for or repayment of the advance was initially delayed due to the consultant's incapacitation after an accident.

As a result of the above mentioned payment, ADF had less money available to fund its programs and operations. Accordingly, we are making the following recommendation.

Recommendation No. 13: We recommend that the African Development Foundation obtain documentation to liquidate the $450 travel advance. If an accounting liquidating the advance payment cannot be obtained, we recommend that the African Development Foundation's Chief Financial Officer take action to recover as appropriate, the above-mentioned unsupported cost.

ADF Improperly Paid $146,002 in Medical Costs For a Consultant of Its Namibia Partner

Summary: ADF incurred and paid costs of $146,002 pertaining to the medical care of a consultant of one of its partner organizations. These costs did not appear to support ADF's goals, as established by Congress, and ADF did not have a contractual or legal obligation to pay them. However, ADF made these payments based on humanitarian grounds and its promise to pay. As a result of these expenditures, the Foundation had significantly less funding to carry out the purposes for which it was established.

ADF was established to empower African grass roots organizations to solve their problems in a self-reliant manner. To that end, Congress declared that ADF was to:

- Strengthen the bonds of friendship and understanding between the people of Africa and the United States.
- Support self-help activities at the local level designed to enlarge opportunities for community development.
- Stimulate and assist effective and expanding participation of Africans in their development process.
- Encourage the establishment and growth of development institutions which are indigenous to particular countries in Africa and which can respond to the requirements of the poor in those countries.

While ADF would normally be expected to incur costs furthering the pursuit of those goals, we found that ADF made certain expenditures pertaining to the medical care of a consultant—hired by one of its indigenous partners—that did not appear to support the above goals.

This consultant was hired by the Namibia partner to provide technical assistance related to its ADF program. Approximately 6 weeks after the consultant arrived and had been working in Namibia, he was involved in a serious automobile accident. It seems that during the course of monitoring Namibian Development Foundation (NAMDEF) field projects, the consultant decided to drive to a game park for the weekend. Contrary to both the terms and conditions of NAMDEF's cooperative agreement with ADF and to ADF's vehicle use policy, a NAMDEF staff member gave the consultant an ADF vehicle to drive to the game park. Unfortunately, while driving, the off-duty consultant was involved in a serious accident and sustained life-threatening injuries. He subsequently underwent medical evacuations to Windhoek, Namibia, where he received immediate medical treatment, and to Johannesburg, South Africa, where he received additional treatment. Ultimately, ADF approved and paid the following costs related to the consultant's medical evacuations and treatment by adding funds to its cooperative agreement with NAMDEF.

Questionable Amounts Paid
Related to NAMDEF Consultant

Payee	Purpose	Date Approved	Amount
International SOS, Inc.	Medical Treatment & Evacuation	2/18/2004	$119,986.00
Medi-Clinic	Medical Treatment	2/23/2004	$ 19,189.00
Lawyer (NAMDEF)[7]	Legal Service	2/23/2004	$ 6,827.00
Total			**$146,002.00**

We believe that ADF's payment of these costs is questionable. ADF did not have a contractual or legal obligation to pay the consultant's medical costs. First, there was no signed contractual agreement between ADF and the consultant. Second, the consultant was not working on U.S. Government business when the accident occurred. Finally, NAMDEF's provision of the vehicle to the consultant was contrary to both its agreement with ADF and ADF's vehicle policy. Moreover, and more importantly, in our opinion, ADF's payment of the consultant's medical costs do not appear to further the Congress' goals for ADF.

ADF's records seemed to indicate that ADF staff themselves had questions concerning the propriety of making these payments. In November 2003, ADF's General Counsel concluded that the medical expenses could not be properly charged to ADF's appropriations. However, in January 2004, the General Counsel issued another opinion, this time opining that ADF could make the payments on humanitarian grounds based on previous payments made by the U.S. Agency for International Development (USAID). It should be noted, however, that the USAID payments were (1) made under different circumstances and (2) made under the authority of—and with funding to carry out the provisions of—the Foreign Assistance Act of 1961 (FAA). In contrast, ADF is provided an appropriation to carry out the International Security and Development Cooperation Act of 1980, rather than the FAA.

ADF did ultimately use the basis of humanitarian grounds to justify and make these payments. However, as a result, the Foundation had significantly less funding to carry out the purposes for which it was established. Accordingly, we are making the following recommendation.

Recommendation No. 14: We recommend that the African Development Foundation recover the $146,002 paid to cover the cost of medical evacuation and treatment for NAMDEF's consultant.

[7] NAMDEF hired a lawyer to provide legal services related to legal action that was threatened by some of the medical service providers.

EVALUATION OF MANAGEMENT COMMENTS

African Development Foundation (ADF) provided extensive comments on the draft report. Their response included 15 pages of comments, a 27 page attachment of its "Field Audit Guidelines and Instructions" in response to Recommendation No. 7, and 15 pages of documents relating to Recommendation No. 13. ADF's 15 pages of comments are included in Appendix II to this report. However, the guidelines and documents provided for Recommendation Nos. 7 and 13 respectively are not included in Appendix II.

ADF agreed with and detailed actions it has taken or plans to take to implement all 14 recommendations in the report. Based on our review of their comments, we consider that management decisions have been reached on these fourteen recommendations. However, to attain final action on all the recommendations, ADF's audit committee must determine and notify us that final action has been taken.

More specifically, for Recommendation No. 1, ADF agreed with the recommendation and said that it has begun an intensive effort to eliminate the backlog of grant close outs by the end of the current fiscal year. ADF also agreed with Recommendation No. 2 and said it has created four Portfolio Manager positions who are responsible for overseeing grant close outs.

Regarding the need for a replacement partner organization in Namibia, ADF agreed with Recommendation Nos. 3 and 4. ADF says it plans to extend the expiration date of the agreement with the current partner organization until December 31, 2005 and that it has cancelled all plans to develop new projects in Namibia this fiscal year.

For the two recommendations relating to the Jigawa housing projects, ADF agreed with Recommendation Nos. 5 and 6. In response to Recommendation No. 5, ADF said that its President will provide the Board with written notification of any instances where the Country Representative or Partner Organization is not expected to actively participate in the monitoring, evaluation and reporting of the project's activities. ADF commented that the projects performed well by Jigawa State standards and were constructed commendably by Nigerian standards. Nevertheless, with the involvement of United States funds and as an example of United States assistance, the quality of workmanship reflected deficiencies that should not be associated with United States standards. ADF also commented on the photographs in the report, saying that the photographed wall was not within the scope of the projects, the standing water depicted the household's fresh wash water and for the photograph of the "falling doors," all exterior doors, including those that are not damaged will be repaired or reinforced. Nevertheless, the pictures in the report were all taken at the project sites and reflect our actual observations. During our site visit, additional instances of crumbling walls, standing water and problem doors were noted. For Recommendation No. 6, ADF said it will contract with a public accounting firm to conduct an audit, in accordance with generally accepted government audit standards, of the Jigawa housing program.

ADF agreed with Recommendation Nos. 7, 8, 9 and 10 which are intended to improve its financial audit process. In response to these recommendations, ADF agreed to formally establish a minimum audit threshold and an effective methodology for determining when its awards should be audited (Recommendation No. 7), and it agreed to submit an annual audit plan to the USAID/OIG by October 1 of each fiscal year (Recommendation No. 8). ADF said that it had already implemented Recommendation Nos. 9 and 10. Nevertheless, the audit noted instances where ADF audits had not been conducted in accordance with generally accepted government audit standards (Recommendation No. 9) and qualified U.S. or local accounting firms had not been used. Thus, these two recommendations were made in an effort to further enhance ADF's financial audit process.

Regarding funds collected from and to be collected from the Government of Guinea, ADF agreed with our Recommendation Nos. 11 and 12. For Recommendation No. 11, ADF said it is pursuing the means to transfer funds approximating $101,000 to the United States Treasury. For Recommendation No. 12, ADF said it has made repeated but unsuccessful attempts to collect the $135,000 from the Government of Guinea. Thus, it has decided that these funds are uncollectible, and has so noted this in their records.

For Recommendation No. 13 ADF agreed with our finding and recommendation regarding the $450 travel advance that was not liquidated and continues to remain outstanding. However, ADF provided us with documentation regarding the questioned $10,257 in "salary" payments made directly to the consultant. As a result of this documentation, we have accordingly modified our final report and recommendation, eliminating our discussion of the $10,257 in "salary" payments.

Regarding Recommendation No. 14, ADF agreed with our recommendation and said it will initiate collection procedures to recover the $146,000 in questioned medical costs. However, it disagreed with the discussion of our finding and felt that its payment of these costs was proper. Its justification for this payment was a cable – dated December 23, 2003 – from the United States Ambassador in Namibia asking ADF to pay these medical costs, because their non-payment was having a negative impact on the standing of the U.S. Mission in Namibia. However, on August 18, 2003, two days after the accident and four months before the Ambassador's letter, ADF wrote a letter to the hospital in Namibia which said:

> "This letter serves to confirm that our foundation will be assuming all reasonable costs for the care and recuperation of the above patient at Windhoek Med-Clinic. We are global clients of SOS International and have identifiable references with the US Embassy in Windhoek."

Later, on November 25, 2003, a representative of ADF met with and informed the hospital that there was a legal ruling prohibiting ADF from using U.S. Government funds to pay the medical costs of the consultant. The above-quoted August 18, 2003 letter committed ADF to making these payments, and, in our opinion, it is this commitment and promise to pay that was improper and that ADF did not have the authority to make. Additionally, this August 18 letter, by referring to the US Embassy, ADF's November meeting with hospital officials and its non-payment of the costs incurred by the hospital put the U.S. Mission in Namibia in a negative standing and resulted in the Ambassador having to issue the December 23, 2003 cable.

In summary, management decisions have been reached on all 14 recommendations and final action can be attained by ADF's audit committee determining and notifying us that final action has been taken.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General's Performance Audit Division conducted this audit in accordance with generally accepted government auditing standards. The audit covered the period of ADF's operations from October 1, 2002, to September 30, 2004, and was conducted at ADF Headquarters from October 2004 to May 2005. In addition, fieldwork was performed in Nigeria from November 30, 2004, to December 16, 2004, and in Botswana from February 2, 2005, to February 18, 2005.

To answer the audit objective, we met with Foundation staff in Washington, DC, and with Foundation partner organization and country representative staff in Nigeria and Botswana. In addition, we conducted field site visits to 9 out of 19 grantees in Nigeria and to 7 out of 12 grantees in Botswana, meeting with grantee representatives and beneficiaries and observing their project operations. Countries visited were judgmentally selected based on number of grants, total dollar amount of grants, stage of grant lifecycles, and input from ADF management. As of September 30, 2004, ADF had approximately 186 active grants, including cooperative agreements with their 12 partner organizations. We also reviewed ADF's relationship with its partner organization in Namibia, as well as the costs associated with activities performed by a contractor working with the Namibia partner organization.

In conducting the audit, we gathered evidence through reviews of ADF, partner organization, and country representative files, reviews of ADF policy manuals, and reviews of external evaluations, as well as through direct observation. We also conducted limited reviews of grantee files for the grantees visited in Nigeria and Botswana.

While performing our audit, we encountered a scope impairment in attempting to calculate the effect of ADF's noncompliance with a GAO decision regarding three contracts ADF serviced with the Government of Guinea.

A Representation Letter was provided by ADF management.

The Grant Close-Outs section of our report (see page 4) cites expenditure and disbursement figures relating to grants due for closeout. The amounts cited were provided by ADF and were not verified by us during this audit. We did not attempt to verify this data because the verification of the data would not have a significant impact on our recommendation and ADF management openly admitted to inaccuracies in the grantee expenditure figures.

In planning and performing the audit, we obtained an understanding of management controls pertaining to the African Development Foundation's monitoring, evaluation, and reporting system. We examined significant internal controls such as (1) ADF's system for monitoring grantee progress, (2) ADF's quality-control system for audits conducted by accounting firms, (3) ADF's system for developing an audit universe, (4) ADF's system for processing grant closeouts, and (5) ADF's system for evaluating grantee performance.

The audit included a review of prior OIG audit reports on ADF and considered the findings affecting areas we were reviewing. In addition, the audit included a limited review of external financial audits of grantees performed by independent auditors.

Methodology

In order to determine if ADF had a monitoring, evaluating and reporting system to effectively manage its activities, we (1) reviewed U.S. government laws and regulations, and ADF's policies and procedures, (2) reviewed ADF administrative and project files in Washington and at ADF partner organization and country representative offices in Nigeria and Botswana, (3) looked at grantee files and financial audit reports for the grantees visited in Nigeria and Botswana, (4) conducted interviews with ADF headquarters staff in Washington, DC and ADF partner organization, country representative, and grantee staff in Nigeria and Botswana, and (5) reviewed prior Office of Inspector General (OIG) audit reports on ADF and a Government Accountability Office Decision concerning ADF "Retention of Funds from Strategic Partnership Agreements with Certain African Governments." Additionally, we reviewed ADF Headquarters' Namibia partner organization files and documents associated with the contractor working for the Namibia partner organization. We also conducted telephone interviews with Namibia partner organization staff, requesting information associated with their relationship with ADF, as well as details of work performed by the contractor.

MANAGEMENT COMMENTS

July 29, 2005

MEMORANDUM

TO : IG/A/PA Director, Nathan S. Lokos

FROM : Nathaniel Fields, ADF President /s/

SUBJECT : Audit of the African Development Foundation's Monitoring, Reporting, and Evaluation System (Report No. 9-ADF-05-008-P)

The African Development Foundation (ADF) appreciates the time and attention the Office of the Inspector General (OIG) has devoted to this Audit Report and to commenting on ADF's operations in general. The following is our response to each of the fourteen recommendations in the Report. As appropriate, we have set forth the planned corrective action and target date for implementing the recommendation. In addition, we have summarized our response in a matrix. We do not agree fully with some of the Report's findings. In those instances, we have provided factual information to support our position.

Recommendation 1: We recommend that ADF close-out expired grants and take immediate action to recover all material amounts due from grantees and, as necessary, deobligate undisbursed funds.

ADF Position: We concur.

Discussion: In February 2005, ADF began an intensive effort to eliminate the backlog of grant close outs by the end of the current fiscal year. ADF Portfolio Managers are reviewing information on expired grants, identifying and recommending actions on recovery of disbursed amounts and, as appropriate, the deobligation of undisbursed balances.

Recommendation 2: We recommend that ADF assign close-out responsibilities to key individuals.

ADF Response: We concur.

Discussion: As part of its October 2004 reorganization, ADF created four Portfolio Manager positions in its new Management Division. Management has assigned to the Portfolio Managers responsibility for overseeing grant close outs. In carrying out this function, the

Portfolio Mangers are required to coordinate with Country Representatives and the Finance Division.

Recommendation 3: We recommend that ADF replace its partner organization in Namibia as soon as possible.

ADF Response: We concur.

Discussion: ADF will extend the expiration date of the NAMDEF cooperative agreement from July 31, 2005 to December 31, 2005. The extension will provide sufficient time for ADF to solicit and award a new cooperative agreement before the current one ends. ADF will issue a request for applications (RFA) by August 15, 2005. We expect to award the new cooperative agreement by December 15, 2005.

Recommendation 4: We recommend that ADF defer implementing new development projects in Namibia until it has a replacement partner organization in Namibia to monitor, report on and evaluate its in-country activities.

ADF Response: We concur.

Discussion: Last May, ADF cancelled all plans to develop new projects in Namibia this fiscal year. Once the new Partner Organization is in place, we will resume project development activities.

Recommendation 5: We recommend that the African Development Foundation require that ADF's Board of Directors be immediately notified of any project where the country representative or partner organization is not actively engaged in the monitoring, evaluation and reporting of project activities.

ADF Response: We concur.

Discussion: The Foundation's senior management presents a project portfolio assessment to the Board of Directors at its regularly scheduled meetings. In addition, prior to grant award, the ADF President will provide the Board written notification of any instance where the Country Representative or Partner Organization is not expected to actively participate in the monitoring, evaluation, and reporting of the project's activities.
While we agree that greater involvement of ADF's Partner Organization in the implementation of the Jigawa Housing program may have facilitated more timely notification of implementation problems, we believe the program's construction delays and cost overruns resulted in large part from the risks inherent in the pilot nature of the scheme and the economic and political dynamics in Nigeria. The program took a novel approach to the development of housing for the poor that relied heavily on the participation of the community at each level. There were little data on which to establish project performance targets or clearly identify risks. Lessons learned in the implementation of the program provide a basis for the future development of such projects in the State of Jigawa and elsewhere. The Nigerian economic and political environment at times contributed to delays and cost increases. For example, rising inflation

increased the cost of construction materials such as concrete, steel reinforcing, metal roof sheets, doors, and windows. In one instance, the construction workers left a work site in response to a nation-wide strike called by the Nigerian labor union to protest rises in the price of fuel.

Nevertheless, the project performed well by Jigawa State standards. In approximately fifteen months, the ADF program financed the construction of more houses than the Jigawa State Housing Authority had built since it was established in 1992. The average cost of a house constructed under the ADF program was only about $3,500 compared to approximately $10,000 for comparable houses built by the Jigawa State Housing Authority.

In addition, the quality of the construction is commendable by Nigerian standards. The Jigawa Housing program received accolades from across the country and is seen as a model for community housing development in Jigawa and other states in the country. In follow-up visits to the program sites, we confirmed that although there were some instances of poor construction quality, most problems resulted from inadequate upkeep and lack of routine maintenance by home owners.

The Audit Report includes a photograph of a crumbling wall outside one of the houses to illustrate structural flaws in the construction. However, construction of exterior walls was not within the scope of the Jigawa program, and no ADF funds were used for exterior walls. Rather, some households, as the one in the photograph, used their own resources to construct these walls. (We also note that in our follow-up site visit, the pictured wall was the only crumbling one we found.) Another photograph included in the Audit Report to illustrate “poor drainage” in fact depicts the household’s fresh washing water -- which does not include raw sewage. One of the significant advances of the program was to provide sanitation for raw sewage through the installation of a ventilated improved pit (VIP) within the compound. Finally, regarding the third photograph in the Audit Report, we recently learned that the community-based organization in Marawa has made arrangements for a welder to repair and/or reinforce all exterior doors on the houses, including those that are not damaged.

Recommendation 6: We recommend that the African Development Foundation engage a public accounting firm to conduct an audit of the project’s expenditures, in accordance with generally accepted government audit standards.

ADF Response: We concur.

Discussion: In January 2004, ADF’s in-house auditor conducted a financial review of the Jigawa Housing program as part of ADF’s decision-making process on whether to increase funding to the program. By August 31, 2005, ADF will award a contract to a public accounting firm on the USAID/RIG-approved list. The contract will require the firm to conduct an audit of the Jigawa Housing program in accordance with the generally accepted government audit standards (GAGAS).

Recommendation 7: We recommend that the African Development Foundation formally establish a minimum audit threshold level and an effective methodology for determining when its awards should be audited.

ADF Response: We concur.

Discussion: Management agrees with the recommendation to formally establish a minimum audit threshold level and an effective methodology for determining when its awards should be audited. ADF implemented this recommendation in June 2005 by integrating its draft policy on this topic into its official policy manual.

In response to OIG Audit Report No. 9-ADF-03-005-P, ADF developed and implemented Draft Guidelines for Audits of Grants and Cooperative Agreements in March 2003. The guidelines established a minimum audit threshold level and described ADF's methodology for determining when its development grants, technical cooperative grants, and cooperative agreements would be audited based on established criteria.

Although the guidelines were not formalized, they were approved by the President and General Counsel before implementation. ADF's draft guidelines lowered its materiality threshold for selecting grants to be audited from $100,000 to $50,000, and ADF established other risk factors that incorporate information obtained from other management fund control activities, such as site visits, ongoing management review of quarterly financial and program reports, and so on, to determine the population for audit sampling. For Fiscal Year 2004 and Fiscal Year 2005, the grant audit population was selected using these criteria.

Recommendation 8: We recommend that the African Development Foundation, by October 1 of each year, prepare and submit a comprehensive annual audit plan to the USAID/OIG that includes its audit plans for grants and Partner Organizations.

ADF Response: We concur.

Discussion: ADF will submit a comprehensive annual audit plan for grants and Partner Organizations to the USAID/OIG by October 1 of Fiscal Year 2006 and every year thereafter. As an added precaution to ensure we meet this date, ADF will amend its Chief Financial Officer's annual performance plan to add an element that requires submission of the annual audit plan to the USAID/OIG by October 1.

In response to OIG Audit Report No. 9-ADF-03-005-P, ADF submitted its comprehensive annual audit plan in March 2003 to the USAID/OIG, which sets forth the Foundation's plans for grants and cooperative agreements for that year. The plan included the population of grants and cooperative agreements to be audited and the methodology to support the audit population. It stipulated that Partner Organizations were expected to comply with audit requirements in their cooperative agreements, i.e., they have to engage an independent accounting firm to perform yearly audits.

In September 2003, ADF submitted its comprehensive Fiscal Year 2004 annual audit plan to USAID/OIG, which included the methodology to support the audit population. The plan also stipulated that cooperative agreements with partners were expected to comply with audit requirements in their agreements that required yearly independent audits. ADF did not finalize its selection of its Fiscal Year 2005 population until third quarter, and therefore did not submit its plan to USAID/OIG on a timely basis.

Recommendation 9: We recommend that the African Development Foundation establish procedures to perform desk and quality control reviews of completed financial audits, using GAGAS and its own audit guidelines, to determine compliance with audit standards.

ADF Response: We concur.

Discussion: ADF has implemented this recommendation. Following the 2003 Audit Report cited above, ADF drafted a policy establishing procedures to perform desk and quality control reviews of completed financial audits, using GAGAS and its own audit guidelines, to determine compliance with audit standards.

Documentation supports ADF's performance of quality control reviews (QCRs) of working papers of completed financial audits in Benin and Ghana in Fiscal Year 2004 for a selected sample of grant and cooperative agreement audits. ADF's Financial Control Officer performed the on-site, in-country reviews to ensure that work was performed in compliance with ADF's established guidelines (Draft Guidelines for Audits of Grants and Cooperative Agreements, Attachment E), which ADF finalized in June 2005. The reviews were also conducted in accordance with generally accepted government auditing standards (GAGAS) as a means to assess audit quality.

Recommendation 10: We recommend that the African Development Foundation develop screening procedures to ensure the competency of the independent audit firms it selects to perform its external financial audits and, where possible, use independent audit firms already on the USAID Office of Inspector General's list of approved audit firms.

ADF Response: We concur.

Discussion: ADF established draft guidelines for evaluating and selecting a qualified independent audit firm in March 2003. Documentation supports the ADF Financial Control Officer's use of an Accounting Firm Questionnaire as an evaluation tool in the process of selecting auditors that would perform grant audits in Fiscal Year 2004.

The Draft Guidelines for Audits of Grants and Cooperative Agreements used for the Fiscal Year 2004 audits did not specifically require exclusive use of independent audit firms already on the USAID Office of Inspector General list of approved audit firms. Nevertheless, ADF voluntarily complied with this recommendation for Fiscal Year 2004. Furthermore, the Guidelines have been updated to reflect the need to use such approved firms to the extent possible, and ADF has required the use of such firms for Fiscal Year 2005 grant audits when possible and cost effective.

The only independent audit firm selected by ADF for Fiscal Year 2004 audits that was not on the approved USAID referral list was Global Auditors in Ghana. Documentation exists to show that ADF's Financial Control Officer performed the evaluation and selection process to determine if Global Auditors was a qualified independent audit firm in accordance with ADF's established draft guidelines.

In addition, documentation exists to show that ADF instructed partners to comply with this recommendation in February 2004. The written instruction is as follows:

In hiring an independent audit firm, the Partner shall follow the same procurement rules that apply to their cooperative agreement. The Partner's Board of Directors is required to utilize audit firms referred by the US Agency for International Development (USAID). A referral list of Audit Firms Eligible to Perform Non-Federal Financial Audits is provided (was provided as an Attachment B). However, in countries not covered by the USAID referral list, pre-approval of an audit firm is required by ADF's Financial Control Officer (or Chief Financial Officer).

Recommendation 11: We recommend that the African Development Foundation transfer the $101,000 in funds it received from the government of Guinea, under its partnering contract for services provided to Guinea, into the general fund of the United States Treasury.

ADF Response: We concur.

Discussion: ADF is actively pursuing the means to transfer the funds to the United States Treasury. Due to the difficulties in converting the Guinea franc into United States dollars, ADF is pursuing two avenues to effect the transfer: using an international paying agent that maintains an account in Guinea or working with the United States Embassy in Guinea to assist in returning the funds to the Treasury. The actual transfer will be completed as soon as possible.

Recommendation 12: We recommend that the African Development Foundation take action to collect the balance of payments of about $135,000 due from the government of Guinea under two partnership contracts for services provided to Guinea but for which the Fund was never paid. If the payments are collected ADF should transfer the funds for deposit into the general fund of the United States Treasury as miscellaneous receipts, but if the funds are not recoverable, ADF should document in its records that the remaining payments are uncollectible.

ADF Response: We concur.

Discussion: In fact, ADF has made repeated attempts to collect the funds, all of which have been unsuccessful. Due to the immateriality of the amount, management has decided that the remaining funds are uncollectible and has documented its records accordingly.

Recommendation 13: We recommend that the African Development Foundation obtain documentation to justify the payments of $10,707. If the documentation justifying the payments cannot be obtained, we recommend that the ADF Chief Financial Officer take action to recover as appropriate, the above-mentioned unsupported costs.

ADF Response: We concur with the recommendation, but disagree in part with the finding.

Discussion: The $10,707 in question includes $450 in travel advances and $10,257 in salary payments to the consultant in question.

ADF agrees that the consultant has not filed a voucher to liquidate a $450 travel advance he received from ADF under travel authorization number TA T03-077. For some time the consultant was incapacitated and unable to submit a voucher. Recently, ADF has learned that the consultant has recovered to the point where he is able to function mentally and physically. Thus, ADF sent the consultant an e-mail (copy attached) requesting that he submit a travel voucher.
We believe ADF has on file adequate documentation to support the payment of the $10,257 in salary payments. The consultant in question signed a contract with the Namibia Development Foundation (NAMDEF), ADF's partner organization in Namibia. He did not have a direct contractual relationship with ADF to provide services. The contract called for NAMDEF to make three installment payments upon delivery of work products specified in the contract's terms of reference. Based on the consultant's delivery of satisfactory products, NAMDEF requested two disbursements from ADF to satisfy the first two of the three installment payments due under the contract. The full value of the contract was not paid out due to the consultant's accident and incapacitation, which occurred approximately three quarters of the way through the contract period.

The first NAMDEF payment of $6,257 was made on August 27, 2003 against a signed invoice from the consultant (copy attached) dated August 10, 2003 for services completed and delivered to NAMDEF in July 2003. The invoice and attached disbursement request from NAMDEF requested payment to the consultant for the delivery of the "first model project paper" and "all training modules," i.e., two of the deliverable work products under the contract. The disbursement request from the NAMDEF Director affirmed this was the first installment under the contract for producing the first model project paper and training modules.

NAMDEF's disbursement request for the second payment of $4,000, sent to ADF on October 18, 2003, indicated payment was for services and products the consultant had delivered up through the time of the accident on August 18, 2003. This payment was for the financial analysis the consultant produced as input into a final project proposal that NAMDEF was assisting an applicant to develop. Despite the timing of the disbursement request, the payment in question was only the second of three scheduled installments under the contract. The disbursement was requested by NAMDEF based on deliverable products and services the contractor had provided.

ADF is satisfied that the two installment payments NAMDEF made to the consultant in respect to work products and contract deliverables NAMDEF confirmed receiving were made in accordance with the contract's terms. We therefore believe that ADF has sufficient documentation to support the payments.

Recommendation 14: We recommend that the African Development Foundation recover the $146,000 paid to cover the cost of medical evacuation and treatment for NAMDEF's consultant.

ADF Response: We concur with the recommendation, but disagree with the finding.

Discussion: For the reasons stated below, we do not agree with the Report's finding that ADF's decision to pay $146,002 in medical costs for a consultant of its Namibian Partner was

improper. In October 2003, ADF's General Counsel determined that the Foundation was not legally liable for the consultant's medical costs for the reasons stated by the USAID Inspector General in the Audit Report.
The ADF President confirmed this determination in a meeting with the consultant's representative in November 2003. In a letter dated December 23, 2003 to the consultant's representative, ADF's President reaffirmed that the Foundation was not liable to the consultant and urged the family of the consultant to take responsibility for his medical care. ADF continues to maintain that it has no legal liability for the consultant's injuries.

In a cable dated December 23, 2003, the United States Ambassador to Namibia informed ADF that due to its refusal to pay the consultant's medical bills, the local treating physician and facility had informed him that they would no longer provide their services to United States citizens. Based on the Ambassador's appeal, the treating facility confirmed that it would admit United States citizens, which would exclude most ADF contractors (including ADF's Namibia Country Representative) since generally they are not United States citizens. (The Foundation later learned that the treating facility would not admit any employee, consultant, or agent of ADF.) Although limited in its capacity, the medical facility that treated the consultant is considered the only one in Namibia that meets acceptable care standards. The Ambassador advised ADF to pay the medical expenses, stating:

The non-payment by ADF of the amount cited above is having a strong negative impact on the reputation and standing of the U.S. Mission and the ADF, and clearly impinges on the Mission's ability to guarantee medical treatment for its employees, contractors, official visitors, and other U.S. citizens. In addition, this unfortunate circumstance further complicates the Namibian Government's view of the ADF. For all of these reasons, it is imperative that ADF take any and all necessary steps to pay this bill in full before the end of January 2004.

In addition, SOS International notified the Foundation that it would not provide ADF medical evacuation services unless ADF paid for services provided to the consultant.

Given the dire circumstances and the risks to life they posed, ADF determined that payment of the consultant's medical expenses is allowable by the African Development Foundation Act (ADF Act) [U.S. Code Title 22, Chapter 7, section 290h] and that such payment was in the best interest of the United States.

Section 290h-4(a) (12) of the ADF Act states: "The Foundation, as a corporation -- shall have such other powers as may be necessary and incident to carrying out this sub-chapter". The inability of ADF to guarantee availability of adequate medical treatment to its employees, consultants, and agents in Namibia would seriously impede the implementation of the Foundation's program in that country. ADF would find it extremely difficulty to deploy the necessary long-term, temporary duty, and consultant expertise it needs to implement the program if it could not assure such individuals that they would have local access to adequate medical treatment and evacuation services. Concerns about access to proper medical care are valid, particularly given the high rate of fatal automobile accidents in Namibia.

In addition, ADF relies heavily on the cooperation of the Government of Namibia for essential support, such as those related to customs clearance and tax exemption, to implement its program. The advice from the Ambassador indicated that failure to pay the medical expenses would complicate relationships between the Government of Namibia and ADF. ADF's experience in other countries underscores the added difficulties in program implementation that can result from tensions with the host government.

ADF's payment of the medical expenses was in the best interest of the United States Government. In addition to hampering ADF's ability to field expertise needed by its program, the United States Ambassador determined that ADF's failure to pay the medical expenses would impinge on the United States Mission's ability to guarantee proper medical treatment to its employees, contractors, official visitors, and other United States citizens – which would create serious obstacles to the furtherance of ADF's and other United States agencies' programs in Namibia. ADF's decision is consistent with holdings of the Comptroller General in analogous situations. For instance, in a case involving payment of examinations to detect the danger of arsenic poisoning in civilian employees in the Department of Army's Chemical Warfare Service, the Comptroller General held that the use of appropriated funds for the examinations was proper because if the "Government [were] unable or unwilling to provide means for offsetting the ever-present danger of arsenic poisoning the situation might well constitute a serious obstacle to the securing of qualified personnel for this work." [Decision of the Comptroller General, B-27022]. In Matter of : Employee of Office of Dependent Schools – Medical Necessity for Use of Foreign Air Carrier [B-202413, November 16, 1981], the Comptroller General held that although U.S. carriers were available, the use of foreign air carriers was appropriate for the medical evacuation of a former contract employee of the Department of Defense Dependents School in Hemer, Germany and in the interest of the United States since under the circumstances, the use of foreign air carriers may be considered a medical necessity.

ADF characterized the payments as humanitarian for two principal reasons. First, the payments were, in fact, humanitarian in nature since they were motivated in part by a genuine concern for the safety and welfare of ADF and the U.S. Mission's employees, contractors, agents, and other United States citizens in Namibia. Second, for tactical reasons, the Foundation did not want to send a signal that the consultant and the service providers may have interpreted as an admission by ADF of legal liability for the consultant's injuries. This is a critical point since all service providers and the consultant had indicated their intent to sue ADF. Indeed, the consultant filed an administrative claim against ADF, which was denied, and he later sued ADF in federal court. Characterizing the payments as humanitarian clearly indicated that ADF believed it had no legal obligation for the expenses.

Notwithstanding that ADF believes the payment of the consultant's medical expenses are allowable under the ADF Act and that they were made in the best interest of the United States, we believe that ADF, as a responsible steward of United States funds, should now pursue reimbursement of the expenses. The consultant's condition was critical for more than a year. The Foundation recently learned that he has recovered to point that he is able to perform some work. But for the actions of the consultant, the obstacles to implementing ADF's program and furthering the United States Mission in Namibia discussed above would not have developed. Particularly given the consultant's improved health status, we believe he has a moral obligation to reimburse ADF. Therefore, we will initiate formal collection procedures to recover the total amount it disbursed for the consultant's medical expenses.

SUMMARY ADF RESPONSE TO AUDIT REPORT 9-ADF-05-00X-P

No.	OIG Recommendation	ADF Response	Corrective Action	Estimated Final Action Date
1	We recommend that ADF close-out expired grants and take immediate action to recover all material amounts due from grantees and, as necessary, de-obligate undisbursed funds.	Concur	Assign Portfolio Managers with responsibility for eliminating closeout backlog	September 30, 2005
2	We recommend that ADF assign close-out responsibilities to key individuals.	Concur	Assign Portfolio Managers with responsibility for overseeing grant close out	February 2005
3	We recommend that ADF replace its partner organization in Namibia as soon as possible.	Concur	Extend the current Partner Organization agreement through December 2005 and award a new agreement.	December 31, 2005
4	We recommend that ADF defer implementing new development projects in Namibia until it has a replacement partner organization in Namibia to monitor, report on and evaluate its in-country activities.	Concur	Cancel plans for development of new projects in Namibia	Implemented mid-May 2005
5	We recommend that the African Development Foundation require that ADF's Board of Directors be immediately notified of any project where the country representative or partner organization is not actively engaged in the monitoring, evaluation and reporting of project activities.	Concur	Revise operating procedures to require notice to the Board	September 15, 2005

No.	OIG Recommendation	ADF Response	Corrective Action	Estimated Final Action Date
6	We recommend that the African Development Foundation engage a public accounting firm to conduct an audit of the project's expenditures, in accordance with generally accepted government audit standards.	Concur	Award contract to a public accounting firm to conduct the audit	August 31, 2005
7	We recommend that the African Development Foundation formally establish a minimum audit threshold level and an effective methodology for determining when its awards should be audited.	Concur	Integrate informal draft policy on audit threshold into the ADF policy and procedures manual.	June 2005
8	We recommend that the African Development Foundation, by October 1 of each year, prepare and submit a comprehensive annual audit plan to the USAID/OIG that includes its audit plans for grants and Partner Organizations.	Concur	Incorporate into the CFO's annual performance plan submission of the annual comprehensive audit plan to the USAID/OIG by October 1 of each year.	August 31, 2005
9	We recommend that the African Development Foundation establish procedures to perform desk and quality control reviews of completed financial audits, using GAGAS and its own audit guidelines, to determine compliance with audit standards.	Concur	a. Formalize draft procedures developed in 2003 by incorporating them into the ADF Manual. b. Assign staff in the Office of Finance and Budget to lead desk and quality control reviews.	September 30, 2005

No.	OIG Recommendation	ADF Response	Corrective Action	Estimated Final Action Date
10	We recommend that the African Development Foundation develop screening procedures to ensure the competency of the independent audit firms it selects to perform its external financial audits and, where possible, use independent audit firms already on the USAID Office of Inspector General's list of approved audit firms.	Concur	Formalize draft procedures developed in 2003 by incorporating them into the ADF Manual.	September 30, 2005
11	We recommend that the African Development Foundation transfer the $101,000 in funds it received from the government of Guinea, under its partnering contract for services provided to Guinea, into the general fund of the United States Treasury.	Concur	Identify and select a workable means to transfer the funds.	August 31, 2005
12	We recommend that the African Development Foundation take action to collect the balance of payments of about $135,000 due from the government of Guinea under two partnership contracts for services provided to Guinea but for which the Fund was never paid. If the payments are collected ADF should transfer the funds for deposit into the general fund of the United States Treasury as miscellaneous receipts, but if the funds are not recoverable, ADF should document in its records that the remaining payments are uncollectible.	Concur	Document files to show payments are uncollectible	August 31, 2005

No.	OIG Recommendation	ADF Response	Corrective Action	Estimated Final Action Date
13	We recommend that the African Development Foundation obtain documentation justifying the payments of $10,707. If the documentation to justify the payments cannot be obtained, we recommend that the ADF Chief Financial Officer take action to recover as appropriate, the above-mentioned unsupported costs.	Concur with the recommendation, but disagree in part with the finding	Document files with supporting information	September 30, 2005
14	We recommend that the African Development Foundation recover the $146,000 paid to cover the cost of medical evacuation and treatment for NAMDEF's consultant.	Concur with the recommendation, but disagree with the finding.	Initiate formal collection process	October 30,2005

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