



September 17, 2008

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

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

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

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

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

Sincerely,

Dennis Bryant /s/
Regional Inspector General/Dakar

Cc: Board of Directors, African Development Foundation

CONTENTS

Summary of Results	1
Background	2
Audit Objective	3
Audit Findings	4
Ineligible and Unsupported Costs Charged to ADF	4
Final Certification of Indirect Cost Rates Not Completed	6
Audits Not in Compliance with ADF Policy	8
Lack of Monitoring and Evaluation System	10
Progress on Achieving Objectives Not Reported and Verified	12
Indications of Fraud and Misuse of Funds by ADF/Ghana Grantees	14
Several Grantees Suffered from Weak Financial Management Practices	17
Grantees' Noncompliance with Agreement Terms	18
Evaluation of Management Comments	21
Appendix I – Scope and Methodology	24
Appendix II – Management Comments	26
Appendix III – ADF/Ghana Questioned Costs	40

BACKGROUND

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

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

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

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

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

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

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

- A partner organization, which has had five cooperative agreements with ADF since 2001 and was responsible for providing technical assistance, monitoring ADF/Ghana projects and developing new projects. The partner had seven employees during the audit period, including 3 professional staff plus 11 contractors.
- The ADF/Ghana country representative office has been under contract with ADF since 2003. The country representative office was responsible for guiding and supporting

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

A weak control environment and a lack oversight by the ADF/Ghana regional office and ADF/Washington were responsible for the above mentioned deficiencies and the resulting questioned costs. Since 2001, ADF/Washington renewed its cooperative agreement with the partner organization without following a competitive bidding process as required by U.S. regulations. The audit found that the partner organization's and the country representative's staff members were not completing timesheets and no payroll records existed to ensure that staff members were paid based on attendance. There was no adequate accounting system to track expenses by budget line and to produce trend analyses and no procedures were in place to verify and validate expenditures. Almost 40 percent of travel advances were not liquidated by actual travel reports. The vehicle logs were not consistently completed and specific locations visited were not listed and the log book was not signed by the user. No bank reconciliations were performed on the partner organization's own business bank account, and even though bank reconciliations were done for the ADF account, they were not reviewed or approved by the partner organization's director. Also, no statements were available on the provident funds² for the last four years. There were no minutes of the board meetings even though expenses were incurred for those meetings.

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

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

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

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

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

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

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

Final Certification of Indirect Cost Rates Not Completed

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

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

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

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

Table 1. Provisional and Final Indirect Cost Rates

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

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

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

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

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

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

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

Audits Not in Compliance with ADF Policy

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

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

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

- The reports' fund accountability statements did not include, as required, cash reconciliations and the notes to the fund accountability statements did not briefly describe the major budgeted items.
- The reports did not include an audit of the indirect cost rates.
- The reports did not include the scope and objectives of the audits and the audit firm had no supporting documentation for adjustments made to some expenditures in the audit report.
- There was no evidence in the work papers that an exit conference was conducted.
- The last two audit reports were completed 26 months and 11 months after the end of the fiscal years and were not submitted to the OIG for review as required by the partner grant agreements.

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

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

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

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

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

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

Lack of Monitoring and Evaluation System

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

ADF policy stresses the importance of ongoing monitoring and providing technical assistance to grantees to ensure early identification and the correction of problems and to ensure the quality of collected information. ADF policy requires that both the ADF country representative office and the partner organization implement program monitoring, evaluate the grantees' progress and provide training. Although the country representative office and the partner organization provided some technical assistance, they did not develop a monitoring schedule for their 13 business development officers⁴, had no mechanism in place to ensure adequate documentation of the grantees' progress in achieving objectives and had not assisted the grantees in obtaining the training required for smooth project implementation.

During the audit team's visits and interviews of 8 of 39 active grantees, the audit found that no training or technical assistance had been provided to the grantees in support of project development, financial management or the development of necessary technical skills. Only one of the eight grantees visited was able to complete ADF progress reports, and the information reported by these grantees had not been verified (see finding on page 12). Also, these eight grantees had not implemented adequate financial management systems (see finding on page 17.)

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

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

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

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

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

- E. K. Agyei, a grantee with a pepper-processing enterprise, was awarded a grant in August 2006 to acquire and implement a functional financial management system including training for the accounting officer. However, during our visit to the grantee we found that E. K. Agyei had no accounting system, the new accountant did not know how to use a computer, had not received any training and was using a basic manual accounting system. Yet, ADF/Ghana had funded two computers and paid for the salaries of one accountant and one bookkeeper. Moreover, the partner organization had conducted at least 13 field visits to this grantee during the period January 2007 to March 2008.
- Santinos, a food-processing project, was awarded a grant in September 2006. Santinos had a manual record-keeping system and could not provide supporting documentation for the sales or the profit and loss reported. The audit found that the grantee was commingling ADF funds with other funds. Supporting documents for quarterly ADF liquidations were missing, and expenses were recorded for items that were not in the approved budget. The grantee's accounting records were produced manually and were in disarray. However, according to the grant agreement, ADF/Ghana was to provide assistance to improve all accounting procedures, develop a financial management system and conduct training.

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

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

Grantees' Noncompliance with Agreement Terms

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

According to ADF's grant agreements for some projects, the grantee shall contribute a certain sum to an ADF-designated community development trust fund (Fund) established to

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

