

AT AID, NEW INSPECTOR GENERAL REPORTS CONFIRM NEED FOR REFORMS

(Updating *Backgrounder Update* No. 159, "Inspector General Finds Many AID Projects Wasteful Failures," May 6, 1991; *Backgrounder Update* No. 127, "Inspector General Audits Find Aid Problems Continue," March 9, 1990; *Backgrounder Update* No. 103, "Inspector General Verdict: Poor Planning on AID Projects," June 5, 1989; *Backgrounder Update* No. 93, "Results of the Inspector General's Audit of AID," February 15, 1989; *Backgrounder Update* No. 90, "New Audits Find More Foreign Aid Waste," December 13, 1988; *Backgrounder Update* No. 78, "More Audits Uncover Aid Failures," June 8, 1988; *Backgrounder* No. 618, "Inspector General Audits Reveal Aid Failures and Boondoggles," November 23, 1987.)

Ronald W. Roskens, the Administrator of the Agency for International Development (AID), has announced a new management plan to improve the efficiency of United States foreign assistance projects. Roskens's plan is very welcome. For years, AID's own Inspector General (IG) has been documenting wasteful and ineffective AID projects. Part of the problem, notes the IG, stems from poor management of projects and a lack of adequate procedures within AID to monitor and correct these shortcomings.

Recent IG audits illustrate the nature and extent of the problems that the Roskens reforms seek to address. Many AID projects still are poorly designed, well exceed budget, and often fail to achieve their stated goals. The current management system has been ineffective at dealing with these problems.

All government agencies are required to establish a system to review their internal management controls and submit an annual report to the President and Congress based on this system. The IG finds that the AID system uses untested techniques and poor documentation. This is due to "inadequate management involvement," says the IG, in a 1991 report, adding that "...the lack of top-level management involvement gave subordinates the impression that the implementation of the alternative internal control review process was merely a paper exercise." The IG report documents the results of poor management processes. Among the examples, in the order that they appear, in the May 1991 IG report:

South Africa. The development assistance program for South Africa is designed to promote a peaceful transition from apartheid. AID's South Africa Mission gives money to local firms and charitable groups that run projects ostensibly designed to build community leadership, improve education, expand human rights, train workers, and spur private enterprise and self-help. As of 1990, AID was managing eight programs with obligations totaling \$69.4 million.

AID requires that the funds until they are spent be put in interest-bearing accounts. Money left over is to be returned to the Mission. These requirements have not been met. The IG audit finds: "As of August 17, 1990, the Mission had \$4,645,509 in outstanding advances due from 161 grantees, with some advances outstanding for a year and some for as long as four years. Forty-nine organizations whose grants had expired still had outstanding advances. The Mission also did not have controls in place to ensure that cash advances were held in interest-bearing accounts with the interest remitted to AID."

The audit concludes that "because the Mission did not establish procedures to appropriately assign work, certain duties in the process were not adequately segregated. This resulted in placing \$12 million of expense payments at risk. Finally, the Mission did not always review expense claims adequately, resulting in questionable or unsupported costs."

Tanzania. A Regional Transport Development Project is funded by AID to improve access to Tanzania's port of Dar es Salaam for the countries of Malawi, Zambia, and Zimbabwe. To do this, the project has been upgrading the railway system connecting these countries. AID has authorized \$45.9 million for the project. The IG finds that AID has not had sufficient procurement controls over the project. As a result, \$3 million worth of spare parts may have been lost or stolen. The IG also questions the need for another \$5.7 million in spare parts. The audit also determines that AID spent \$1 million in training personnel who were not needed.

Egypt. AID's Decentralization Sector Support Program is designed to speed economic development in Egypt's villages by decentralizing government control of services. The project has helped local governments launch 6,000 projects to deliver such basic services as electricity and water to residents. As of 1990, AID had dispersed over \$176 million to villages. Although the project has helped local governments gain control of some services, AID procedures have attracted IG complaints. For one thing, the IG finds that "the way in which funds were disbursed under the project has resulted in large unused balances, often held in accounts that do not bear interest." For another, many of the grants were used by the villages to buy equipment from former Eastern bloc countries. This is prohibited by AID. For example, the IG auditors discovered that AID funds were used to buy 37 Romanian-built tractors.

Zaire. In 1986, AID and the government of Zaire launched the Central Shaba Agricultural Development Project, primarily to raise the efficiency of Zaire's private farms. Part of the \$33.9 million earmarked for the project went to build roads to speed the transport of crops to market. All these roads were scheduled to be completed by September 1990. Last August, however, only 25 percent of the primary roads and 17 percent of the secondary roads had been completed. States the IG, "The road rehabilitation work was delayed because the Government of Zaire failed to provide fuel, equipment, and labor to the project." In one project, the government provided only \$60,000 of the required \$750,000 for construction. This was not enough even to begin work. As a result, \$5.7 million worth of construction equipment sat idle. In addition, the government of Zaire failed to maintain those roads that had been completed. Many, therefore, have deteriorated, wasting the AID money.

The Bahamas. In 1978, as part of a broad project to increase agricultural output in the Bahamas, AID established a \$10 million credit guarantee fund to help farmers buy fertilizers and equipment. Shortly after that, AID ended its support for the entire program. Yet the fund continued to operate using AID funds. The 1991 IG audit finds that, by 1989, "26 percent of all loans made by the Fund were in default and another 11 percent were in arrears In summary, the Fund continued to operate for nearly 14 years with minimal AID involvement."

Other Federal Audits. In addition to the AID Inspector General, other federal auditors are required to review certain AID projects. From October 1, 1990, to March 31, 1991, there were 53 such audits, questioning over \$3.6 million of AID expenditures. "Only 21 of the 53 reports that gave an opinion on the financial statements expressed a favorable opinion (40 percent)," notes the IG. "In the accompanying reports on internal controls and sufficient compliance, less than half reported adequate internal controls and sufficient compliance with laws, regulations, and agreements."

Years of audit reports demonstrate that AID is mired in inefficiency. It is time for AID to establish an internal process to evaluate effectively the success of its projects. That is what the Roskens management proposal intends to do, and it thus could be an important step in correcting the structural problems of the agency.

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