

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON

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THE ADMINISTRATOR

February 2, 1979

MEMORANDUM FOR EXECUTIVE STAFF

SUBJECT: Field Project Management; Lessons Learned In How
Not To Administer A Borrower/Grantee Project

I have sent all USAID Directors and A.I.D. Representatives copies of A.I.D. Audit Report No. 79-25 concerning USAID/Panama's mismanagement of one of its projects. Copies of that report and the airgram which transmitted it are attached. There are object lessons for Bureaus and Offices here, too, of the consequences of a Mission's failure to follow its own oversight systems and A.I.D. regulations. Each of you should give this report a careful reading.


John J. Gilligan

Attachments

1. Audit Report No. 79-25
2. Transmittal Airgram

SENIOR STAFF

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DAA/FN
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MANAGEMENT REVIEW
OF
PANAMA LOAN 525-T-042 *525-178*
THE GRAINS AND PERISHABLES MARKETING SYSTEMS PROJECT

Audit Report No. 79-25

Issue Date: December 29, 1978

THE GRAINS AND PERISHABLES MARKETING SYSTEMS PROJECT

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AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

MANAGEMENT REVIEW

OF

PANAMA LOAN 525-T-042

THE GRAINS AND PERISHABLES MARKETING SYSTEMS PROJECT

INTRODUCTION

In May 1978, the Auditor General of the U.S. Agency for International Development conducted a Management Audit of USAID/Panama's planning, supervision and control of the "Panama Grains and Perishables Marketing Systems Project" (Grains Project). Total funding for the Grains Project amounted to \$9.5 million of which AID provided \$6.2 million through a September 10, 1975, AID/Government of Panama loan agreement. The Panamanian Government Marketing Agency, Instituto de Mercadeo Agropecuario (IMA), was to be the local implementing agency for the project.

About \$6 million, or 63 percent of the Grains Project, was to finance the design, construction and equipping of four terminal plants for processing and storage of grains and the improvement of existing cold storage centers.

At the time of our audit, the project was two years behind schedule and available construction cost estimates, once thought to be \$6 million, had been forecast at \$8.9 million by an architect and engineering firm (A&E).

Evidence developed during our audit clearly shows significant management deficiencies by USAID/Panama's personnel in monitoring and controlling implementation of the Project.

From an industry and technological standpoint, there appeared to be nothing revolutionary about constructing grain terminal processing and storage plants. Domestically, American firms have constructed and equipped grain terminal plants for years. In fact, from the very scope of the project's plan and the loan agreement, we see that certain grain processing and storage facilities already exist in Panama.

Nevertheless, we found serious deficiencies by the Mission in advising and guiding Panama officials (IMA) in contracting for necessary pre-construction design planning and bid preparations.

Implementation problems occurred in spite of the fact AID had guidelines for loan financed host country contracting projects, as well as a Project Management System established by USAID/Panama for overseeing projects. We have included, as Appendix I, a summary of the relevant Mission project guidelines. Also, in a September 19, 1978, audit report, the AID Auditor General reported many problems inherent in the Agency's Preference of Mode of Contracting for Bilateral Assistance. This report stated that, in many instances, host country capability is lacking in contracting procedures and administration.

We feel the findings developed during this audit demonstrate, to a significant degree, what can go wrong when host country officials, lacking contracting experience, are not adequately supported by the AID mission.

The following is a summary of major management deficiencies identified by our auditors.

- In many instances, pertinent AID Mission staff offices, in particular the Office of Engineering Services (OES), did not participate in the review and approval of the project implementation documents. This omission was the result of internal Mission management deficiencies which excluded principal staff offices from participating in their selected areas of project management responsibility.
- A contract for \$549,658 was awarded to Harris-Solarian (a mixed U.S.-Panamanian architecture and engineering consortium) of which \$335,886 covered the preparation of design plans, specifications and cost estimates, and \$213,772 was for construction inspection work. We found that, in spite of elaborate AID procedural requirements in force, the Harris-Solarian contract and amendment proposals were not effectively analyzed or reviewed for soundness and reasonableness of price. (See page 5)
- An amendment was made to the Harris-Solarian contract without the prior review of USAID engineers whereby the amount of \$213,772 designated in the contract for inspection work was made available for the design work. This increased the cost of the design work and was accomplished by eliminating the distinction in the original contract between payments for design work and subsequent construction inspection work. (See page 5)
- The AID Mission in Panama and its Office of Engineering Services (OES) failed to review and approve the A&E firm's final design plans

and drawings when completed that were to be used in soliciting bids on the construction of grain project plant facilities. This failure occurred in direct violation of AID's procedural requirements and the explicit terms of the loan agreement. (See page 7)

- USAID/Panama used a contract employee in the capacity of Project Manager. We found such action to be against AID policy. We question its legality, and we further found that during a portion of the time he served as Project Manager he continued to serve as a consultant to IMA, the very Panamanian entity administering the loan for the Panamanian Government. (See page 8)
- The Agency needs to clarify its policy on host country contracting (Handbook No. 11) to facilitate understanding and compliance by host government contracting officials. It is the understanding of the Auditor General that a revision of this handbook is currently in process. (See page 10)
- In the absence of normal oversight and control by Mission and Panama officials, the A&E firm performed with questionable efficiency as demonstrated by the following.
 1. On November 10, 1977, the A&E firm submitted their "final estimate" of cost for the four grain terminals to be constructed. This estimate was 65 percent greater than their preliminary estimate submitted seven months earlier (\$9,908,371 compared to \$5,998,122). In spite of this wide divergence, USAID/Panama took no action and permitted the bid opening to take place on schedule November 15, 1977, five days later.
 2. Discussions between USAID/Panama and the A&E firm in December 1977 revealed a clerical error of about \$1 million in their November 10, 1977, final cost estimate, lowering it to \$8.9 million. This occurred subsequent to the bid opening ceremony on November 15, 1977, at which time the A&E's figure of \$9,908,371 was read as the official estimate.
- IMA should not have proceeded with awarding the bid considering original project funding limited construction costs to approximately \$6 million. In spite of the funding limit, IMA made a provisional award to a firm bidding \$8.4 million. Subsequently, IMA canceled the bid process amid allegations of collusion between the pre-bid design firm (Harris-Solarian) and the low bidder, with the result that the provisional award was nullified.

An investigation by the AID Auditor General's Inspections and Investigations Staff (IIS) did not reveal any evidence that collusion existed. However, the investigation resulted in a conclusion that the Panamanians' decision to reject the provisional bid was influenced by USAID/Panama.

Subsequent to the foregoing events, AID/Washington directed that no further work on the project was to be pursued until resolution of the issues of whether (1) to resume negotiations with the provisional bidder or (2) to revise the project size downward and secure new bids.

Subsequent to our audit, a decision was made to hire two additional contractors for study and revision of the first firm's design plans and specifications to allow construction within the \$6 million budget. Although \$549,658 had been obligated for the Harris-Salarian contract for design planning (including the amount originally designated for inspection during construction), another \$26,000 will be paid to revise design plans, and \$189,000 more is estimated for contract engineers to assist IMA during construction.

Final completion, originally planned for June 1978, is now scheduled for June 1980.

Comments from interested USAID/Panama and AID/W officials on the draft report were received and are included in the published report, as appropriate.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

Failure of USAID/Panama to Monitor and Control Project Implementation

USAID/Panama's organization and supporting disciplines for managing projects, including the Loan 042 project, are authorized by the Mission Director through Order No. 104, dated March 1, 1977, and its predecessor, Order No. 220-1, dated March 21, 1973. The orders established a Project Management System operating under the overall guidance and supervision of the Director (see Appendix I). Although the system outlined the procedures for managing the loan, a number of breakdowns occurred in the cycle of management with the result that some required Mission actions were not taken and, of those that were, some were not adequately supported and subject to question.

We found that staff work was inadequate to support several actions taken in connection with the Grains Project. Usually, the Project Manager did not make assignments in writing to obtain position comments from specialty

team members such as the Controller or the Office of Engineering Services. As a result, the team members did not work as a team in considering the advisability of proposed actions and often cleared documents without adequate information.

We also noted that the principle of full team clearance was not always observed by the former Mission Director before affixing his signature to a document relating to project actions. For example, the Director signed Implementation Letter No. 9, dated September 21, 1976, approving the financing of the Harris-Solarian contract without clearance from OES. (Exhibit B)

About \$6 million, or 63 percent of total funding for the Panama Grains and Perishables Marketing Systems Project, was for design and construction of four terminal processing plants and for the improvement of existing cold storage centers.

For the most part, construction and equipping of the terminal processing plants were the focal points of the entire Grains Project. However, our auditors found that in the very early stages of the design phase, the Mission exercised very loose oversight and control. For example, a contract was to be awarded to a mixed U.S.-Panamanian consortium of architectural engineering firms (known as "Harris-Solarian"). The contract scope required necessary architectural engineering design plans, specifications, and other work required prior to bid solicitation. We found that prior to awarding the contract to Harris-Solarian (also referred to as the A&E) the Mission failed to perform a substantive review of the contractor's proposal for cost justification and to satisfy loan and administrative requirements for "reasonableness of price," as required by AID Handbook 11 and the terms of the loan agreement. (Discussed further in the following section.)

The total Harris-Solarian contract obligation of \$549,658 was allocated to Phase I - Design and Bid Preparation - \$335,886, and Phase II - Inspection During Construction - \$213,772. Payments for each segment were clearly set forth with a fixed amount provided for Phase I and a ceiling provided for Phase II with payments based on a time rate basis.

In addition to the Mission's failure to adequately review the initial contract for reasonableness, an amendment was made to the Harris-Solarian contract without the full input of USAID engineers and the Controller. As a result, an additional Phase I obligation of \$213,772 was approved by the Mission, by eliminating a contract clause whereby distinction had been made between payments for design work and subsequent inspection work during construction.

A substantive review of the contract prior to approval of the amendment would have alerted the USAID as to the factors bearing on Harris-Solarian's performance and would have triggered more appropriate actions to cope with the A&E's request for more funding.

In fact, seven days subsequent to the Mission Director's approval of the Contract Amendment (Implementation Letter No. 11, dated August 5, 1977), and too late to have any effect, OES reviewed the Amendment proposal and their memorandum of review, dated August 12, 1978, stated:

"It is also noteworthy that the proposed amendment does not in any fashion or manner deal with the apparently substantial reduction in the magnitude of the work to be performed both in design and supervision. If accepted in its present form, the amendment will result in IMA paying much more (perhaps 50%) for much less effective work without any guarantee or responsibility on the part of the Consultant to finish his work within a definite time or cost frame."

Since the Controller's office cleared the amendment as to its financial aspects, we queried the team member on the basis for his clearance. We were informed that he acted to approve since "it was the best way out of a bad situation."

In view of the fact that neither the A&E nor IMA established the propriety of the cost aspects of the amendment which the Mission approved, and a question of overpayment exists for the work performed, we believe an audit of the Harris-Solarian/IMA contract is called for.

In order to protect the interests of IMA and the Mission, and to assure actions are taken to satisfy procurement requirements under the loan, the following recommendations are made.

Recommendation No. 1

USAID/Panama should require an audit of the Harris-Solarian/IMA contract on a priority basis.

Recommendation No. 2

USAID/Panama tighten its administrative and executive procedures and oversight to insure that the regulations of this Agency are adhered to and the terms of a loan agreement are followed.

USAID/Panama, in commenting on the revised draft, states that the Harris-Solarian proposal was reviewed. Our auditors noted the cited workpapers in Panama detailing the cost proposal but concluded they did not provide an effective evaluation of cost information from each of the five consortium members comprising the A&E proposal, i.e., the requirements of Implementation Letter No. 1, Attachment F, for procurement of engineering and other professional services, were not met and the proposed indirect expense rate applicable to each member using the cost principles of Chapter 4 of Handbook 11, Country Contracting, was not examined.

Failure of USAID/Panama to Utilize Its Office of Engineering Services to Monitor and Control Technical Inputs

As noted heretofore, the actions by USAID/Panama on the Grains Project do not satisfy Loan 042 project agreement requirements and established Agency policy covering the technical input and control for projects of this nature. For instance, OES advised us that, in their judgment, the design of the grain terminal plants was not a complicated job and that consulting work should not have required an expenditure of more than \$100,000. We could find no record that this professional assessment was made available to Mission or project authorities at the outset of the project. Such plants are not new to Panama and were built previously in Panama by the private sector.

Nevertheless, \$500,000 was budgeted and subsequently the Harris-Solarian contract for construction design plans and specifications was awarded for \$549,658. The engineer who is second in command of OES and served as Acting Chief of OES on several occasions, Mr. Sam Fullilove, informed our auditors that their staff could have accomplished the whole job.

USAID/Panama had an OES staff of six professional engineers, including three Panamanians. Whether OES functions under a project team or through other means, its mandate is unique. The AID position description of the General Engineering Officer (AOSC 0801.01), dated November 18, 1975, states, among other duties, that -

"9. Personally reviews the final plans and specifications drawn by the engineering contractor or checks the work of the consultant who performs the review on which the Mission Director is to make final recommendation regarding such projects. In either event, the responsibility for engineering judgments required for establishing the Mission's recommendation rests with the General Engineering Officer." (Underscoring supplied)

We noted that the OES project team member participated in most reviews of engineering matters arising in connection with the implementation of Loan 042. This covered such actions as reviewing for acceptability IMA's prequalification of engineering firms and selection, scopes of work, invitations for bids, and the engineering aspects of contract activities.

But, as stated previously, there were occasions when OES was bypassed. We were informed that the project manager, a contract employee, often bypassed the OES team member and made decisions involving engineering problems, or decisioned them directly with the Mission Director, Associate or Deputy Mission Director.

We deduced some evidence that the original design work may have been unnecessarily complicated and overly costly. We express no opinion on this point. We do note that, as matters now stand, a more simplified design is contemplated, drawings will be reduced to one or two instead of 60 for each plant and that, as of the time of this review, it was reported that most of the drawings prepared by Harris-Solarian at substantial cost will not be used.

✓ Improper Use of Contract Employee as Project Manager

On May 13, 1976, AID/Washington executed a Task Order under Agency Agreement No. AID/pha-1136 to provide the services of a marketing specialist to work for the Marketing Institute of Panama (IMA). Although the scope of technical services provided that the specialist assist and be responsible for the General Management of the Marketing Institute of Panama, the former Mission Director, by memo to the files on May 23, 1977, subject "Use of Contractor Personnel as Project Managers," authorized the specialist to work at the Mission in the capacity of Project Manager on the Grains Project based on the following reasons:

- "(a) The Mission operates under a project team concept. No major decisions on project implementation can be made without project team clearance. The team in both of these projects, with the exception of the Project Manager, are made up of direct-hire employees.
- "(b) The Project Officer, a direct hire, is responsible for the preparation and proper clearance of all written communications between borrower and USAID, which includes, as a minimum, project team and sector chief.
- "(c) All written communications sent to the heads of agencies under any project, and this includes IMA and BDA under these projects, must have clearance of the Office of the Director. Letters addressed to Ministers must be signed by the Mission Director.
- "(d) Approval of contract vouchers for payment will be made by the Division Chief."

All payments were charged to the AID/Panama Grains Project loan funds until July 1, 1977, when the then Acting Controller authorized the charging of the specialist's payments to the USAID's operating expenses. The specialist continued to work at the Mission until April 21, 1978, when he departed post.

We learned that the contract employee operated in such a manner as to make the above restraints inoperative. The contractor's employee had, at times, made management decisions without consulting the project team as he should have. As an example, he proposed changes in the design of the grain elevators without consulting the OES team member. This is considered one of the factors that contributed to the increased construction cost estimate of the grain elevators. The contractor's employee also developed close relationships with IMA personnel by virtue of having served as their management advisor. We were informed that IMA, in turn, thought he officially spoke for AID when he later was appointed Project Manager. This often resulted in the informal handling of matters which should have been committed to correspondence and made a matter of record.

The last reason stated by the former Mission Director for his authorization to use the contract specialist as a direct-hire was that the contract employee's vouchers for payments were to be approved by the Division Chief. The approval statement of the voucher cites that goods were delivered and services performed in accordance with the terms of the contract and that payment is proper. We noted that the Division Chief who had knowledge of the services performed did not approve several of the contract employee's vouchers; instead, the Deputy Controller approved them in contravention of the approval requirements.

The hiring of the contract employee to serve as Project Manager violated Agency rules. The Regional Legal Advisor informed us it was not legal to hire a personal services contractor to work in a direct-hire position for AID because he cannot represent the U.S. Government in dealing with a host government. This is exactly what formed the core of the Project Manager's duties.

The Mission Director who authorized the use of the contract employee's services at the Mission is no longer associated with AID and the contract employee departed post in mid-April 1978. However, in view of the implications of this action, we believe a formal written opinion from AID/W's General Counsel (GC) should be requested. Essentially, the questions to be addressed include whether the Task Order changes of the contract employee to Mission operating expenses meet the standards of Section 1311 of the Supplemental Appropriation Act of 1955 (31USC 200) as a valid obligation. The obligation test as provided by that section is that no amount shall be recorded as an obligation unless it is supported by documentary evidence showing that -

1. A valid and binding agreement in writing has been executed.
2. The obligation is for a purpose authorized by law.
3. The obligation was incurred before expiration of fund availability.

The details follow:

(a) Need to Amend Task Order (TO) No. 2 (Under Agreement AID/pha-1136)

AID/W was, on February 27, 1976, requested to negotiate a two-year contract with the Cooperative League of the USA for the services of Herman Obregon, Marketing Specialist, to work for the Marketing Institute of Panama and to charge Loan 525-T-042 (the Grains Project) for all contract costs. Task Order No. 2 was executed in compliance with this request. If the GC opinion supports the Mission's action in allowing the contract employee to work for and at USAID/Panama, the Task Order should be amended to reflect the revised scope of work and to serve as the validating document for the obligation to USAID's operating expenses. The amendment of the Task Order may not be required if the GC opinion finds the Mission action contrary to law.

(b) Correction of USAID/Panama's Obligation for Operating Expenses

The funding of Task Order No. 2 under USAID/Panama's operating expenses became effective July 1, 1977. The Mission Director authorized the contract employee to function as a project manager, effective May 23, 1977. If the GC opinion supports the Mission's action, then Task Order No. 2 costs of the contract employee should be recorded as operating expenses commencing May 23, 1977, on, and not July 1, 1977. In the event of an unfavorable opinion, an adjustment may be required to cover the improper obligation and charges to operating expenses since July 1, 1977.

Recommendation No. 3

USAID/Panama request an opinion from the General Counsel (GC), AID/W, regarding the legality of using the CLUSA employee to serve as the Mission manager of the Grains and Perishables Marketing Systems Project and take action in consonance with the GC decision and the requirements of Section 1311 of the Supplemental Appropriations Act, 1955 (31USC 200).

Need to Clarify AID Handbook No. 11 - Country Contracting

Our review disclosed that IMA did not completely meet the services procurement requirements of Loan 042 and Handbook 11. These requirements

(for services procurement) were referenced in the loan and were transmitted through Implementation Letter Number One. The fact that IMA did not furnish the evidence necessary to establish the reasonableness of the price of the A&E negotiated contract indicates that, in addition to a lack of trained staff, there could have been a misunderstanding on its part of the essence of these guidelines or that the guidelines were not clear.

It is understandable that the applicability of certain sections of the Handbook may have been misconstrued by procurement officials of the Government of Panama because the Handbook transmittal memorandum, dated March 31, 1975, in effect states that the procedures are suggestions only. The statement is quoted below:

- "2. The primary purpose of this Handbook is to provide suggested methods of contracting procedures to borrower/grantee countries for all types of host country contracts. Accordingly, these procedures are applicable to all AID-financed country contracts regardless of type of project. It should be understood that procedures outlined in this Handbook are suggestions only and are not to be construed as mandatory directives of the borrower/grantee."

However, a closer examination of the Handbook belies the suggested nature of the guidelines. The Handbook contains four chapters of which Chapter Procurement of Professional and Technical Services, and Chapter 4 - Cost Principles for Borrower/Grantee Contracts are applicable to the Harris-Solarian/IMA contract.

The "suggested" nature of the material incorporated in the Handbook is dispelled by Paragraph 1c - Contract Rules - which contain specific reference to the type of clauses which "must" be included from the "scope of project and services" to "documents required for payment" sections of Handbook No. 11. In reading these clauses we noted that (a) some relate to legislative requirements which cannot be waived, (b) others to AID policy which should not be waived, and (c) still others which relate to accepted practices and preferences which are suggested for use.

Similarly, Chapter 4 of the Handbook sets forth cost principles which AID recommends as applicable to negotiated fixed price contracts, among others (Paragraph 4B 1 b of Handbook 11). Also, it is stated that these principles are to be considered to assist in the negotiation of contracts for review and approval and/or audit. (Paragraph 4A 1 of the Handbook). The applicability of the cost principles also can be misinterpreted in the context of the "suggested" nature of all guidelines in Handbook 11.

We understand that Handbook 11 is being revised. We cite the foregoing as an example of problems inherent in the version in force during the events covered by this review. We do so with the thought that this example may be of value to the revisionists of Handbook 11.

Project Status

As of May 31, 1978, (the time of the AID audit) the Grains Project was about two years behind schedule and the latest cost estimates for plant construction, once thought to be \$6 million, had been finalized at \$8.9 million.

The grain plant component of the project financed under the loan has been redirected pursuant to the Memorandum of Understanding, dated April 4, 1978, between USAID/Panama and the Institute of Agricultural Marketing of the Republic of Panama.

Other matters covered include revision of the financial plan to permit priority construction of grain storage plants and the designation and contracting with a technical team to review and modify the existing design plans (i.e., those prepared by Harris-Solarian). The goal of the redirected effort is to have a rebid early enough to permit initiation of construction in January 1979, the beginning of the next dry season.

The Mission entered into Contract 525-335T with Dr. Norton C. Ives on May 18, 1978, for \$5,040 to review studies, drawings and bid documents for the four grain facilities, recommend specific changes as requested by IMA to make the facilities functional and minimize construction cost and prepare a preliminary estimate of the cost of the new facilities. The Mission also plans to enter into a contract for approximately \$21,000 with Saint-J International to modify the existing drawings and bid documents, or prepare new ones.

The total project cost estimate remains at \$9.560 million with the AID loan share remaining the same at \$6.2 million. The latest financial plan provides for an increase in several items financed by the loan above the amounts estimated in the 1975 Capital Assistance Paper. These increases are compensated by the elimination and/or reduction of other project components, as shown below:

Summary of Project Item Increases (In Thousands)

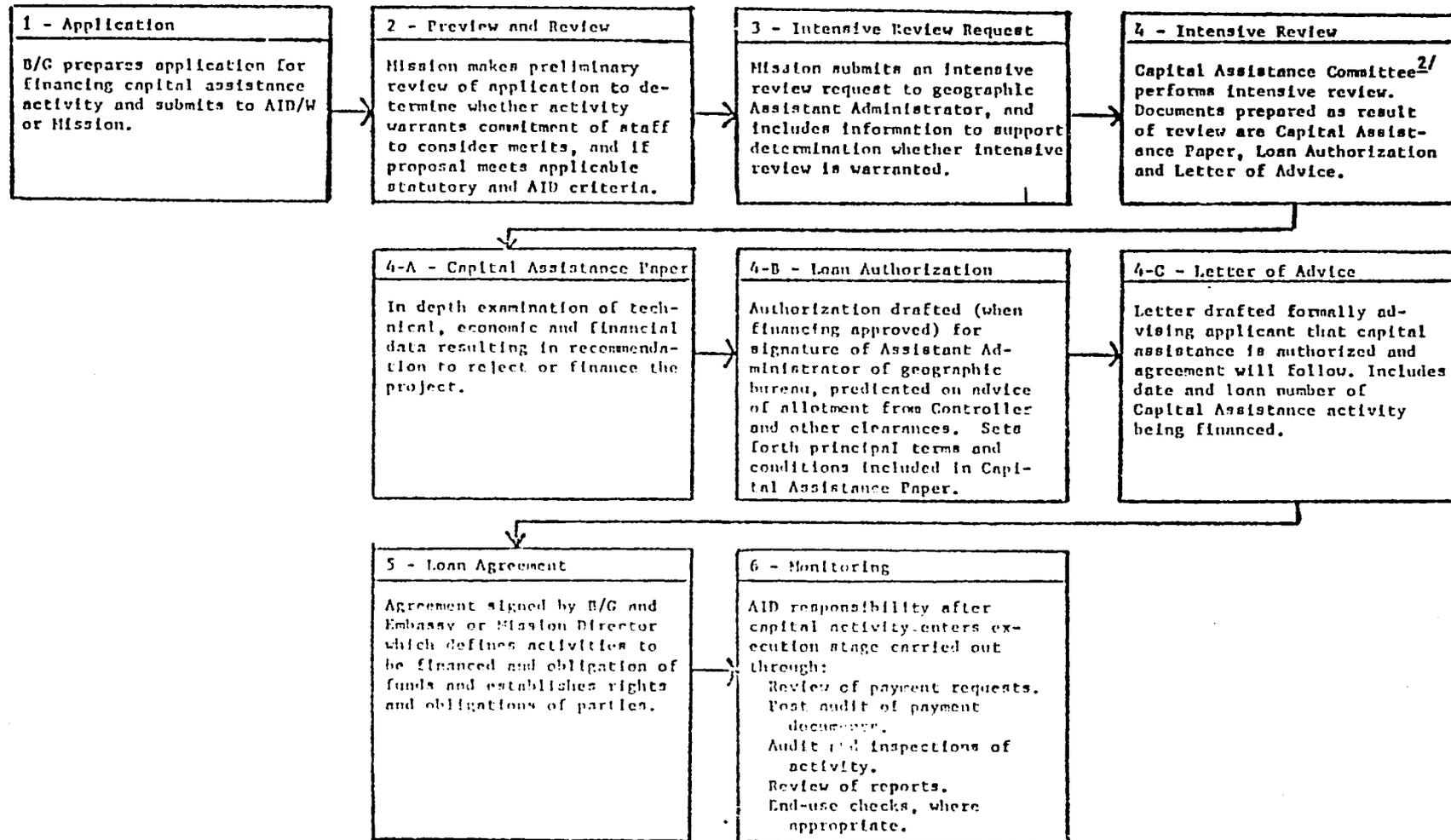
	<u>Original Plan</u>	<u>Latest Proposed Plan</u>	<u>Increase</u>
Grain facilities construction	\$ 2,604	\$ 4,093	\$ 1,489
Architect & Engineering (A&E)	500	715	215
Buying and collection points	- -	345	345
Other components (combined)	<u>3,096</u>	<u>1,047</u>	<u>(2,049)</u>
	<u>\$ 6,200</u>	<u>\$ 6,200</u>	<u>\$ - -</u>

The \$215,000 increase in A&E services includes the two consultants and provides for an additional contract with an individual or firm to assist the IMA engineers during the construction phase of the project. The entire amount may not be required depending on the arrangements made. A more detailed Financial Plan is included in this report as Exhibit C.

Final completion of the project is now scheduled for June 1980, in lieu of the originally planned date of June 1978. (See Exhibit D.) Total disbursements under the loan as of March 31, 1978, were \$633,644, comprised of \$510,619 for the A&E contract and \$123,025 for other project items.

THE GRAINS AND PERISHABLES MARKETING SYSTEMS PROJECT

PREPARATION AND APPROVAL PROCESS - CAPITAL ASSISTANCE PROJECT ACTIVITIES



^{1/} Source: Manual Order Series 1200 Applicable to Capital Assistance.

^{2/} Capital Assistance Committee normally consists of a capital assistance officer, engineer, counsel and program or desk officer from AID/W and/or field and, when necessary, a technical specialist, financial analyst, economist or contract specialist. The Committee may be located either in the Mission or AID/W.

GRAINS AND PERISHABLES MARKETING SYSTEMS PROJECT

Loan No. 525-T-042

Summary of USAID/Panama's Implementation Letters to IMA

<u>Letter No.</u>	<u>Date</u>	<u>Subject Matter</u>
1	9/10/75	Mission outlined procedures for using loan and provided information to assist in implementing project. Letter included attachments as follows: (1) Guide for legal opinion; (2) designation of representative; (3) AID audit requirements; (4) list of ineligible vessels; (5) summary of shipments; (6) guidelines for procurement of engineering and other professional services; (7) guidelines for procurement of construction services; and (8) guidelines for procurement of equipment and materials.
2	10/6/75	Mission acknowledged legal opinion and sample signatures submitted by IMA. Advised IMA it could proceed with disbursements for technical assistance and professional services.
3	12/15/75	Mission accepted training plan as complying with loan agreement.
4	2/4/76	Mission acknowledged that Minister of Agricultural Development represents Government of Panama for purposes of executing loan.
5	3/1/76	Mission attached new guidelines in three major areas of procurement, superseding corresponding ones of Implementation Letter No. 1. Also enclosed revised list of ineligible ships.
6	3/12/76	Mission informed IMA that documentation submitted fulfills all conditions precedent to disbursement; requested copy of detailed scopes of work on each technical consultant; offered USAID Controller services to develop management oriented financial reporting.
7	6/15/76	Mission acknowledged IMA letter that Rodriguez is new Project Director for loan.
8	6/16/76	Stated Mission concurrence to IMA's proposal to change locations and sizes for several grain facilities and acceptance of revised financial plan.

<u>Letter No.</u>	<u>Date</u>	<u>Subject Matter</u>
9	9/21/76	Mission informed IMA of AID's approval of contract between IMA and consortium of firms headed by Frederic R. Harris.
10	11/26/76	Mission requested IMA's balance sheet as of 12/31/76, profit and loss statement for 1976, and copy of annual audit of books and records.
11	8/5/77	Mission informed IMA it approves amendment to Harris-Solarian contract while recognizing need to change Annex 1 and the Financial Plan of the Loan Agreement due to proposed construction changes to which it agrees in principle.
12	9/22/77	Mission informed IMA of its approval of contract between IMA and Chandeeck and Bosquez and Cooper and Lybrand for \$124,549.30.
13	10/13/77	Mission informed IMA of its approval of the revised Annex 1 and Financial Plan of the Loan Agreement.
14	10/25/77	Mission notified IMA that list of ineligible ships of Letter No. 5 is no longer in effect.
15	2/16/78	Mission notified IMA that offer of \$36,000 IMA received on manufacture of wooden pallets is reasonable. Mission also agrees to reimburse IMA on evidence of delivery and IMA's payment to supplier.
16	3/28/78	Mission informed IMA it will reimburse it for the training course for five IMA staff members in Bogota, estimated to cost \$7,550.

GRAINS AND PERISHABLES MARKETING SYSTEMS PROJECT

Loan No. 525-T-042

Project Financial Plans Comparison
(In Thousands)

	<u>Original Plan^{1/}</u>			<u>Latest Proposed Plan^{2/}</u>		
	<u>Borrower</u>	<u>Lender</u>	<u>Total</u>	<u>Borrower</u>	<u>Lender</u>	<u>Total</u>
I. <u>Land</u>	\$ 500	\$ -	\$ 500	\$ 200	\$ -	\$ 200
II. <u>Physical Facilities</u>						
A. <u>Grains</u>						
(1) Facility construction	2,111	2,604	4,715	2,500	4,093	6,593
(2) Vehicles and additional Equipment	-	625	625	-	242	242
B. <u>Perishables</u>						
(1) Facility construction	504	631	1,135	-	-	-
Facility reconditioning	-	-	-	50	75	135
(2) Vehicles and additional equipment	-	685	685	-	50	50
III. <u>Marine Vessels</u>	110	220	330	-	-	-
IV. <u>Box Factory</u>						
Construction	-	135	135	-	-	-
Equipment	135	-	135	-	-	-
V. <u>Accounting Equipment</u>	-	100	100	-	10	10
VI. <u>Architectural and Engineering Services</u>	-	500	500	300	715	1,015
VII. <u>Technical Assistance Training</u>	-	700	700	-	670	670
VIII. <u>Buying and Collection Points</u>	-	-	-	300	345	645
TOTALS	<u>\$ 3,360</u>	<u>\$ 6,200</u>	<u>\$ 9,560</u>	<u>\$ 3,360</u>	<u>\$ 6,200</u>	<u>\$ 9,560</u>

Sources:^{1/} Capital Assistance Paper, dated June 18, 1975^{2/} Project Manager, May 31, 1978, based on March 30, 1978 estimates.

GRAINS AND PERISHABLES MARKETING SYSTEMS PROJECT

Loan No. 525-T-042

Dates of Events Comparison

<u>Future Event</u>	<u>Original Plan ^{1/}</u>	<u>Latest Plan ^{2/}</u>
Consultants complete final design and specifications for balance of new and renovated storage facilities.	6/76	9/78
IFB documents issued for balance of grain and cold storage construction and renovation.	7/76	9/78
Bids received for balance of grain storage facility renovation and construction.	9/76	11/78
Contract awards made for renovation and construction of grain storage facilities.	10/76	1/79
Vehicle and equipment procurement completed.	3/77	6/79
Cold storage renovation and construction completed.	10/77	12/79
Grain storage construction completed.	12/77	3/80
Final disbursement.	6/78	6/80

Sources:

^{1/} Capital Assistance Paper, dated June 18, 1975.

^{2/} Project Manager, May 31, 1978, based on March 30, 1978, estimates.

USAID/PANAMA ORGANIZATION PLAN FOR MANAGING PROJECTS,
INCLUDING THE PANAMA GRAINS AND PERISHABLES MARKETING PROJECT

The USAID/Panama organizational plan for managing projects, including the Grains Project, resulted from the Mission Director issuing special orders in March 1977 and March 1973. The orders provided for a special project management team that was to operate under the overall guidance and supervision of the Panama Mission Director. It consisted of an organizational alignment of representatives from staff offices (Office of the Controller, Executive Office, and Office of Engineering Services), sector units and project teams, assembled to perform their respective functions.

In summary, Mission oversight of projects was to be accomplished as follows:

- (a) Mission Director - in addition to giving overall guidance and direction received, for approval, from the project manager, specific documentation supporting each major implementation action.
- (b) Project Manager - a project subject specialist having daily responsibility for overall coordination.
- (c) Project Officer - from the Sector Unit (e.g., Agricultural, Human Development, etc.) having technical responsibility. Assists project manager and arranges meetings, initiates action requiring project team member input and clearances.
- (d) Engineering - the USAID/Panama Office of Engineering Services (OES) provided a member to the project team to perform required Mission engineer input.
- (e) Financial - financial planning, review and control was to be provided by a representative from the Mission's Office of the Controller.

Overall, the USAID/Panama organization plan for managing the Grains Project appeared quite sophisticated and well conceived. But, taken in total, poor coordination, communications and, in some instances, apparent ineptitude on the part of USAID/Panama has resulted in a two-year delay of the project and complete rethinking of the Grains and Perishables Marketing Systems Project.

APPENDIX II

MISSION DIRECTORS IN USAID/PANAMA
DURING PERIOD COVERED BY THIS REPORT
December 30, 1974 through March 31, 1978

	<u>From</u>	<u>To</u>
Alexander Firfer	10/23/70	8/3/75
George Rublee (Acting)	8/4/75	12/17/75
Irving G. Tragen	12/18/75	10/27/77
Dr. Paul Saenz (Acting)	10/28/77	1/30/78
Charles B. Weinberg	1/31/78	8/78

GRAINS AND PERISHABLES MARKETING SYSTEMS PROJECT

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Panama should require an audit of the Harris-Solarian/IMA contract on a priority basis.

Recommendation No. 2

USAID/Panama tighten its administrative and executive procedures and oversight to insure that the regulations of this Agency are adhered to and the terms of a loan agreement are followed.

Recommendation No. 3

USAID/Panama request an opinion from the General Counsel (GC), AID/W, regarding the legality of using the CLUSA employee to serve as the Mission manager of the Grains and Perishables Marketing Systems Project and take action in consonance with the GC decision and the requirements of Section 1311 of the Supplemental Appropriations Act, 1955 (31USC 200).