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AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

OFFICE OF THE AUDITOR GENERAL
AREA AUDITOR GENERAL - EAST ASIA

AUDIT REPORT
USAID/LAOS
AGRICULTURE DEVELOPMENT SECTOR
PROJECT NO. 439-11-190-065

Period Covered by Audit: From
projects' prior audit cut-off
dates to March 31, 1972

Audit Report No. 8-439-73-9

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AUDIT REPORT

USAID/LAOS

AGRICULTURE DEVELOPMENT SECTOR

PROJECT NO. 439-11-190-065

PART I - PURPOSE AND SCOPE

We have completed an interim comprehensive audit of the Agriculture Development Sector administered by the USAID Agriculture Division (AGR). Exhibit A contains a listing of projects administered by AGR, including those examined during this audit. Exhibit B contains data on arrivals and departures of Contractor personnel. The audit was performed in accordance with the provisions of AID Manual Order 793.1, subject: "Audit of Technical Assistance" for the purpose of (a) reviewing and evaluating program implementation within the overall sector objective, (b) appraisal of the effectiveness and efficiency by Management in the use of its resources, and (c) verifying compliance with applicable agreement terms and AID regulations.

This audit covered the period from projects' prior audit cut-off dates to March 31, 1972, and included (a) a review of pertinent records maintained by USAID, the Royal Lao Government (RLG), the Agriculture Development Organization (ADO) and Contractor, (b) discussions with responsible USAID, RLG, ADO and Contractor personnel, and (c) visits to project sites located in Vientiane, Luang Prabang and Sayaboury Provinces in Laos.

Significant matters disclosed by the audit are presented in Part IV, Statement of Findings and Recommendations. Major findings are summarized in Part III.

PART II - BACKGROUND

USAID assistance to the RLG Directorate of Agriculture commenced during 1955. Mission programs from 1955 through 1962 were primarily directed towards (a) rehabilitation of certain agriculture facilities, (b) furthering the RLG Extension Service by providing assistance in publishing bulletins and pamphlets, and (c) establishment of an RLG Subdirectoriate of Irrigation.

Mission reports show that during the above period, little economic progress was made towards development of the Agriculture Sector, and that this was primarily because priorities had not been established. Starting, however, with FY 1963, the USAID increased its level of assistance with emphasis on rice production. Despite relatively substantial USAID inputs, progress was slow, with Mission officials citing considerable difficulty in achieving program objectives because of lack of qualified Lao personnel in the RLG Directorate of Agriculture. As a consequence, the Mission characterized the assistance to the RLG from 1955 through 1966 "as a period in which the basic semblance of an education and adaptive research organizational infrastructure was developed together with limited technical capabilities".

Technical assistance provided the RLG was within the framework of six subactivities as follows: (1) Crops & Soils, (2) Livestock, (3) Irrigation, (4) Agriculture Extension, (5) Agriculture Development Organization, and (6) Fisheries. During the above period, Project Managers were generally responsible for identifying their own sub-activity needs, and for determining the level of planned assistance. As a result, the Mission reported that prior to the introduction of the Accelerated Rice Production Program (ARPP) in early 1967, there was no well-defined Mission agriculture development activity goal.

A Mission Evaluation Report (November 1969) commenting on the pre-1967 period stated that many of the sub-activity goals were not put in quantitative amounts of output planned for the input programmed, and given these

broad indefinable goals, it was extremely difficult to measure program effectiveness (output) against programmed input.

The ARPP, however, provided the Mission with a specific aggregate production goal with pertinent subactivity programs directed towards meeting this aggregate goal. In 1967, the Mission envisioned that because of high-yielding rice varieties developed by the International Rice Research Institute and their proven adaptivity to Laos, milled rice production should eradicate the then annual rice deficit of approximately 70,000 metric tons (M/T) by the end of 1970, and that by the end of 1972, approximately 200,000 M/T of rice would be available for export purposes.

ADO, a joint USAID/RLG organization under the direction of an Administrative Council comprised of senior USAID and RLG officials, was established in April 1965, by a Project Agreement between the USG and the RLG for purposes of (a) encouraging rice seed multiplication, (b) increasing rice production by disseminating information on improved farming methods, and (c) purchasing rice at a price sufficient to encourage domestic production. The ADO was to play a major role in providing farmers the necessary credit to procure agricultural commodities such as fertilizers, insecticides, agricultural equipment and implements. On the other hand, ADO was to provide certain marketing assistance and at times procure paddy at pre-established prices.

Lao rice self-sufficiency and envisioned exports were not realized. Instead, rice importation by commercial importers and USAID, initially on the decline from a 1967 high of 88,000 M/T to 42,800 M/T by 1969, increased to 66,600 M/T by 1970, and was estimated to be in excess of 100,000 M/T for 1971 as shown below:

<u>Year</u>	(Rice M/T in Thousands)		
	<u>Commercial</u>	<u>USAID</u>	<u>Total</u>
1967	39.2	48.8	88.0
1968	31.7	29.3	61.0
1969	19.3	23.5	42.8
1970	31.3	35.3	66.6
1971 (Estimated)	58.0	46.0	104.0

Mission officials are aware of existing problems which hampered the attainment of ARPP goals. These problems include (a) difficulties in changing farmers' attitudes from a subsistence to a marketing oriented economy, (b) marketing and transportation, (c) unrestricted rice imports from Thailand, and (d) manpower shortage because of the security situation in Laos.

Mission and RLG officials are presently studying ways and means of alleviating problems faced by both farmers and consumers, and emphasis has been shifted from accelerated rice production per se to rice and other field crops.

From July 1, 1963, to March 31, 1972, U.S. dollar obligations and expenditures of the Agriculture Development Sector totaled \$15,100,000 and \$14,200,000 respectively. Local currency (Kip) obligations totaled K1,246,000,000 (\$5,200,000) and expenditures K1,227,400,000 (\$5,100,000), at the rate of K240 to \$1.00.

Of the above totals, U.S. dollar and local currency expenditures for the five subactivities reviewed during this audit totaled \$11,700,000 and K942,000,000 (\$3,900,000) respectively (Exhibit A).

PART III - SUMMARY

Audit findings are discussed in detail in Part IV. We summarize below those findings which we consider most significant.

ADO monthly financial statements do not include all costs associated with ADO operations (Part IV,A, Page 6). Accounts Receivable Cards cannot be fully relied upon as true indicators of amounts owed ADO by customers (Part IV,B, Page 10). Funds provided ADO by USAID for specific objectives to be attained under various programs were not fully used for purposes intended (Part IV,C, Page 12). Project commodities in support of ARPP objectives had not always been adequately controlled or effectively utilized (Part IV,D, Page 16). The Nam Tan Irrigation Project, when completed, will not be able to irrigate total hectareage originally envisioned (Part IV,E,

Page 19). ADO records show a liability of K136,400,000 (\$272,800) which is invalid. Moreover, a payment made of K60,000,000 (\$120,000) may not be proper (Part IV,F, Page 24). The majority of irrigation pumps provided by the British Government to increase rice production in Laos are presently not effectively utilized (Part IV,G, Page 30). Carp fingerling distribution to farmers and fish culturalists is significantly below the production capability of the RLG fish culture stations (Part IV,H, Page 35). Non-Expendable Property Records had either not been established or were inadequately maintained (Part IV,J, Page 41).

The draft report was submitted for comment to responsible USAID officials. Management comment and actions applicable to specific findings are presented in Part IV of this report when applicable. All findings are for the information and/or action of USAID/Laos.

PART IV

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A - ADO FINANCIAL REPORTING

Significant improvements were noted in the overall reporting preparation and presentation of ADO monthly financial statements; however, our review showed that current statements still do not include all costs associated with ADO operations.

According to ADO officials, efforts were initiated with the assistance of USAID Financial Management Branch personnel, starting as of June 1971, to more accurately report the financial condition of ADO operations, with the introduction of Profit and Loss Statements. Prior to the above date, ADO financial reports consisted of semi-annual Balance Sheets and related schedules (Cash, Receivables and Inventory).

Records show that two Balance Sheets had been prepared as of June 26, 1971, that is, an original Balance Sheet issued during August 1971, and a "Revised Balance Sheet" issued during October 1971. The original Balance Sheet was based on balances recorded in the ADO General Ledger, as opposed to the Revised Balance Sheet, which according to ADO officials, had been prepared based on "review and analysis" of the General Ledger balances.

The Revised Balance Sheet differs significantly from the original Balance Sheet especially in the reporting of Accounts Receivable, Commodity and Merchandise Inventories and Donor Countries' Equity, simultaneously decreasing ADO's book value from K705,800,000 (\$1,400,000) to K337,100,000 (\$674,200). The reduction in ADO book value of K368,700,000 (\$737,400) had not been presented to the ADO Administrative Council for their review and approval, although reportedly, distribution of financial statements had been, or are being made to members of the Council. Major differences noted are discussed below:

1 - Accounts Receivable

We noted that General Ledger Accounts Receivable balances which originally totaled K245,700,000 (\$491,400) had been reduced by K34,800,000 (\$69,600) to K210,900,000 (\$421,800). Reasons for this reduction, according to cognizant officials, were that (a) the available subsidiary records and Accounts Receivable Cards did not always agree with General Ledger totals, (b) certain accounts were determined invalid, and (c) a detailed reconciliation would have required reconstruction of the Accounts Receivable which was believed impracticable since original documents would not always be available.

2 - Commodity and Merchandise Inventories

The Commodity and Merchandise Inventories which were originally valued in the ADO General Ledger at K286,400,000 (\$572,800) had been reduced by K179,600,000 (\$359,200) or approximately 60 percent to K106,800,000 (\$213,600).

From our review of pertinent records and discussions with responsible officials, we learned that the book value of commodity (rice) and merchandise inventories had been reduced by approximately 50 and 60 percent respectively, to arrive at a new cost basis, which reportedly equalled cost or market, whichever is lower. The above adjustment was also made so that future ADO fiscal reports could measure the effectiveness and profitability of ADO operations.

The majority of items in ADO inventories prior to the above adjustments were project and/or other donor country provided commodities, which had been generally recorded on ADO's books at their landed cost, at the rate of K500 to \$1.00, and sold at landed cost or below.

We noted that the revalued commodities presently being sold by ADO include a "mark-up" element of approximately 100 percent, which makes the selling price about equal to the original landed or adjusted cost. However, a review of the financial statement for the eleven-month period ending May 31, 1972, indicated a gross profit of

approximately 20 percent. This is primarily due to certain revalued commodities having been sold at reduced prices and that new commodities imported by ADO were being sold at a nominal mark up of approximately 25 percent.

3 - Equities (Donor Countries' Contributions)

The original Balance Sheet showed Contributions by Donor Countries totaling K988,100,000 (\$1,970,000) as follows: USG K627,000,000 (\$1,250,000), GOJ K227,300,000 (\$454,600), and "Others" K133,800,000 (\$267,600). The Revised Balance Sheet does not report such contributions, but instead shows "ADO Equity" of K337,100,000 (\$674,200) as follows: ADO Home Office (K127,100,000) and ADO Field Offices (K210,000,000).

ADO personnel stated that although from an accounting and reporting viewpoint it is desirable to show Donor Countries' contributions, in reality, the amounts in the original Balance Sheet had been incorrectly stated, and that an analysis as to actual contributions would require extensive research.

The above was discussed with senior ADO officials who generally concurred in our observations; however, they pointed out that no firm policies had ever been established and that such issues as (a) pricing of commodities for resale to farmers, (b) valuation of project and other donor country commodities, (c) treatment of US dollar costs (ADO American personnel), and (d) whether ADO is to either function as a non-profit service organization or as a profit-making business, needs clarification.

In our draft report we recommended that USAID/Laos assure that the ADO Administrative Council provides necessary clarification as to whether ADO is to operate as a non-profit service organization or as a profit-making business, so that financial statements can be prepared accordingly. In response, the Mission advised that on July 27, 1972, the ADO Administrative Council determined:

- "1. That ADO shall function as a self-sustaining non-profit institution.
- "2. That it is permitted to add an overhead factor to the

landed cost of its commodities which will permit an overall return from its sales and development programs of approximately 25% to be applied to overhead expenses.

- "3. In order to lower and stabilize prices, ADO's pricing policies shall be such as to favor the agricultural sector by being priced at levels somewhat less, thru lower mark-ups, than the commercial prices at which similar products are traded in the Laos market. These guidelines are being put into effect and ADO's financial statements will be prepared in a manner to best reflect these decisions.
- "4. U.S. dollar expenses were not to be considered as far as determining ADO's breakeven point."

In view of this advice we have withdrawn our recommendation.

Recommendation No. 1

We recommend that USAID/Laos require ADO to perform a periodic internal audit of Balance Sheet accounts to assure that future ADO financial reports fairly present ADO's financial condition.

Management Comment:

"Upon arrival of the new Controller in September 1972, ADO will then have sufficient manpower to undertake a responsive internal audit function; additionally, a new Lao National Position has already been established and is now staffed with a very capable Lao who will be assigned to review not only financial activities but also operational and procedural compliance."

B - ACCOUNT RECEIVABLE CARDS

Individual ADO Account Receivable (A/R) Cards in support of General Ledger totals cannot be fully relied upon as true indicators of amounts owed ADO by customers.

As of March 1972, it was estimated that the ADO Central Office in Vientiane maintained more than 10,000 A/R cards; 70 percent of which pertained to customers located in the Vientiane area, with the remaining cards applicable to other ADO locations.

In our review of the Vientiane area A/R cards we learned that cards had not been always promptly posted. For example, payments totaling K3,960,000 (\$7,900) were not recorded on the cards, although funds had been received during September 1971. The above discrepancy had not been discovered by ADO personnel since monthly reconciliations were not being performed. ADO officials stated that emphasis had been placed in assuring the accuracy (including monthly reconciliations) of A/R cards pertaining to the other ADO locations, but that as of May 1972, all ADO locations are being reconciled.

Of 7,391 A/R cards maintained for the Vientiane area, we noted that 2,800 had zero balances; 1,267 had balances ranging from K1 to K2,000 (less than \$.01 to \$4.00), 1,638 had balances ranging from K2,001 to K5,000 (\$4.01 to \$10.00). The remaining 1,686 had an average balance of K31,200 (\$63) per card. The majority of the cards were in delinquent status, with past due amounts ranging from one to three years.

ADO fiscal records show that during the period July 1971, to February 1972, a total of K10,300,000 (\$20,600) had been written off due to "Theft by Agents/Bad Accounts". Officials stated that certain ADO employees (subsequently terminated) had neglected to turn in funds collected from farmers, and that this was discovered because of subsequent contacts with farmers for collecting purposes. The full extent of losses is not known at this time. However, based on reports from present ADO collection staff, it appears that the amount could be significant in relation to total Accounts Receivable. For example, during May 1972, an

additional K2,400,000 (\$4,800) had to be written off, based on February through April 1972, collection efforts. This compares to K6,500,000 (\$13,000), in cash or kind, collected from farmers during the same period.

We noted that ADO presently employs twenty-seven personnel in its Collection Department, fifteen of whom are "Collection Agents". Payroll expenses for this Department during February through April 1972, amounted to K2,100,000 (\$4,200). In addition, Collection Agents must travel extensively in order to contact farmers; thus, transportation, per diem, and other overhead costs should also be considered.

The number of minimal accounts and their cost of collecting were discussed with ADO officials, who stated that ADO had requested broader write-off authority from the Administrative Council (February 1972), but that the decision was pending. Moreover, a review would be made for purposes of possibly reducing the number of Collection Department employees.

In our draft report we recommended that USAID/Laos require that ADO (a) identify Accounts Receivable Cards which are seriously delinquent, have nominal balances and are costly to collect for immediate write-off action, and (b) assure the maintenance of accurate and up-to-date Accounts Receivable Cards. In response, the Mission advised:

"(a) Utilizing write-off guidelines as approved by the ADO Administrative Council, ADO has completed write-off action of those accounts receivable which were seriously delinquent, had a very nominal balance, or were costly to collect. Based on a thorough review of accounts receivable cards, ADO wrote off 1,892 accounts falling within the criteria of Recommendation No. 3.

"(b) Internal controls have been established within ADO to assure accurate and up-to-date accounts receivable records."

In view of this advice we have withdrawn our recommendation.

C - ACCELERATED RICE PRODUCTION PROGRAM

Our review showed that funds provided ADO by USAID for specific objectives to be attained under various programs were not fully used for purposes intended.

During FY 1969 through FY 1971, USAID and ADO entered into a number of agreements in support of ARPP and other objectives. These agreements provided ADO with necessary funds, on either a loan or grant basis, for rice marketing stabilization programs and to extend credit to farmers for procuring fertilizer and insecticides from commercial sources. Agreements reviewed during this audit were (a) Rice Market Stabilization Program totaling ₪85,000,000 (\$354,200) under ProAg No. 9065-5 Revision No. 10 of December 11, 1968; (b) Rice Marketing Program totaling ₪40,000,000 (\$166,700) under Mission Activity Plan Approval No. 0166 of March 25, 1970; (c) Commercial Fertilizer Loan Program totaling ₪40,000,000 (\$166,700) under Activity Plan Approval No. 0235 of June 15, 1970; and (d) Rice Marketing Program totaling ₪51,200,000 (\$213,400) of June 27, 1971.

1 - Rice Marketing Stabilization Program (CY 1969)

On December 11, 1968, the USAID and ADO entered into a Financial Agreement, under which the USAID agreed to extend to ADO the amount of ₪85,000,000 (\$354,200) for use in financing a rice marketing stabilization program during CY 1969. ADO was to repay the above amount in six equal monthly installments beginning July 31, 1969, and ending December 31, 1969.

The purpose of the loan was to assist ADO in pursuing its market development efforts by purchasing, transporting, storing, milling and selling approximately 3,000 M/T of 1968 wet season paddy rice. The Agreement stipulated that ADO was to purchase the paddy exclusively from farmers at about ₪25 per kilogram, and that no payments were to be made to middlemen. The paddy thus purchased was to be stored in ADO-controlled warehouses and milled for resale to private merchants. Moreover, ADO was to maintain complete, accurate, and segregated records of all transactions associated with

this rice marketing project, in order that the costs and performance of the project could be fully evaluated.

Our review showed that the K85,000,000 (\$354,200) had been deposited in ADO Bank Account No. 101, "Operating Fund", an account primarily established to fund the routine day-to-day operations of ADO. In addition, ADO had neglected to establish separate accounting records and to segregate records to applicable transactions from other on-going rice marketing programs. As a result, we were unable to ascertain whether the loan funds had been utilized for purposes originally envisioned.

As noted above, the Agreement also stipulated that ADO was to fully repay the loan by December 31, 1969. Records, however, show that as of the above date, only K16,000,000 (\$66,700) had been repaid. The balance (K69,000,000 or \$287,500) was subsequently liquidated (October 1970) by USAID electing not to pay ADO for value of rice deliveries made to USAID under on-going rice delivery contracts.

2 - Rice Marketing Program (FY 1970)

On March 25, 1970, the USAID entered into an Agreement with ADO, under which the USAID agreed to provide ADO K40,000,000 (\$166,700) for purposes of purchasing and marketing rice grown during the 1969-1970 dry season in the Vientiane Plain. The Agreement required that the proceeds from the sale of rice was to revert back to the Trust Fund.

USAID fiscal records show that the K40,000,000 provided ADO was recorded as "expended" in the Project Ledger, instead of having been recorded as 'funds advanced'. Because of this, no follow-up action had been taken by the Mission to determine the actual proceeds from the sale of rice under this program.

We were unable to determine from ADO records whether the K40,000,000 had been actually used in support of the Rice Marketing Program. In our opinion, a liability of K40,000,000 presently exists in favor of USAID, pending (a) full accounting by ADO of rice proceeds, or (b) possible

waiver of liability action by USAID.

3 - Commercial Fertilizer Loan Program (FY 1970)

On June 15, 1970, funds totaling K40,000,000 (\$166,700) were approved by the USAID for purposes of establishing in ADO a Special Loan Fund to provide credit for farmers purchasing fertilizer and other commodities (insecticides) from private commercial dealers. On June 25, 1970, ADO received the first and only installment totaling K20,000,000 (\$83,400).

Our review showed that only approximately K5,300,000 (\$22,100) was expended by ADO under the program. The remaining K14,700,000 (\$61,300) was subsequently approved by the Mission for use by ADO to fund day-to-day operations.

ADO officials stated that the program was terminated because the commercial dealer (ESSO Chemical Co.) had discontinued business in agricultural chemicals in Laos, and that there were no other commercial dealers available who were interested in participating in the program.

4 - Rice Marketing Program (FY 1971)

On June 27, 1971, ADO received a grant of K51,200,000 (\$213,400) in Counterpart Funds to be used in support of ADO's CY 1970 wet season rice purchase program in the Vientiane Plain.

On December 16, 1971, ADO reported to the Mission that it had terminated the program as of September 15, 1971, and that development costs related to this purchase program amounted to K9,250,000 (\$38,500). ADO simultaneously requested that it be authorized to use the uncommitted amount of K41,975,000 (\$174,900) in support of its day-to-day operations. This request was subsequently approved by the Mission on January 4, 1972.

Recommendation No. 2

We recommend that USAID/Laos (a) require ADO to inform the Mission as to the total proceeds derived from the sale of rice under Mission Activity Plan Approval

No. 0166 of March 25, 1970, and (b) that proceeds, if any, be reverted back to the Trust Fund.

Management Comment:

"Preliminary review of ADO records indicates that the 40.0 million Kip received by ADO on Activity Plan No. 0166 was repaid to USAID via rice deliveries. A thorough review of this Activity Plan will be completed by ADO and presented to USAID. This review should provide the basis for an agreement between ADO and USAID as to the status of funds received under Activity Plan No. 0166."

D - FERTILIZERS & INSECTICIDES

Our review showed that project commodities procured by USAID for ADO in support of ARPP objectives had not always been adequately controlled and effectively utilized, resulting in substantial losses to AID.

Approximately \$1,154,000 of fertilizer and insecticides was procured by the Mission in support of the ARP Program for sale by ADO to farmers, with the bulk of the commodities arriving in Laos during 1967 and 1968. Specific quantities of fertilizer and insecticides imported and their effective utilization has been the subject of earlier detailed reviews made by Mission officials, Inspector General of Foreign Assistance (IGA) and Mission auditors. Several studies indicated that quantities of fertilizer and insecticides originally procured were far in excess of immediate requirements. In light of the above, our review, therefore, was generally limited to review the action taken by Mission and ADO officials to effectively dispose of commodity excesses. Since both USAID and ADO commodity records were found to be incomplete, we were unable to ascertain actual quantities received by ADO and to determine responsibility for unaccounted commodities noted during our review.

1 - Fertilizer

Total fertilizer procured by USAID was about 8,000 M/T at a cost of approximately \$893,300.

ADO records (March 1972) showed that 5,456 M/T (68%) had been sold to farmers; that 777 M/T (10%) was donated to USAID and RLG activities; that 1,068 M/T (13%), some in deteriorated condition, was still on hand in ADO warehouses, and that 699 M/T (9%) valued at \$78,100 was either in insecure areas (360 M/T) or could not be accounted for (339 M/T).

2 - Insecticides

Of 240 M/T of BHC procured by USAID at a cost of approximately \$122,000, only 23 M/T or less than 10% was

sold to farmers. Fifty M/T (21%) was sold to AGRI Business Company of Bangkok, Thailand for \$3,000 or \$60 per M/T as compared to USAID's acquisition cost of \$25,000 or \$508 per M/T.

As of March 1972, 87 M/T of BHC valued at \$44,300 was still in ADO warehouses for disposal at about \$60 per M/T to business interests in Thailand. Eighty M/T valued at \$40,700 could not be accounted for.

Of 120 M/T of Sevin procured by USAID at a cost of approximately \$138,700, 63 M/T (53%) valued at \$72,800 was sold to farmers. Ten M/T (8%) valued at \$11,600 was donated. Two M/T valued at \$2,300 was on hand in ADO warehouses, and 45 M/T valued at \$52,000 or 37% could not be accounted for.

In summary, as of March 1972, of total fertilizers and insecticides procured by USAID in support of the ARP Program (\$1,154,000), commodities valued at about \$693,700 were sold to farmers. The difference (\$460,300) was comprised of \$165,800 in ADO warehouses, most of it reportedly in deteriorated condition, \$98,300 donated to other USAID or RLG activities, \$25,400 sold at greatly reduced prices, and \$170,800 that could not be accounted for.

It appears, from our review of ADO and Mission files, that commodity losses could have been significantly reduced if action had been taken as recommended by IGA inspectors. In their report on August 29, 1969, the IGA pointed out that "... the Agriculture Development Organization now has more insecticide and fertilizer on hand than it needs. Although this fact is known to the USAID, the actual amount of these excesses had not been determined at the time of our visit. We think that the matter of getting accurate estimates of the quantities of excesses should now be given top priority. So far as we can tell, nearby AID missions may have need for some of these excesses, and circulation of availabilities at an early date might well permit cancellation of new procurement by other missions." USOM/Thailand was cited as an example of a Mission having a large amount of certain types of insecticides on order.

The Mission on November 5, 1969, in response to the IGA observation, stated that commodities were not regarded as excessive, citing favorable commodity distribution activity and long lead-time between ordering and receipt of commodities as justification for stock levels.

However, based on our review of commodity distribution prior and subsequent to the above date, we believe that the Mission's response did not report actual conditions. For instance, Sevin which was more popular with farmers than BHC, was cited by the Mission as an example, of favorable commodity distribution. The Mission inadvertently reported 1,228 drums (50 lbs.) on hand and distribution of 470 drums during a fifteen-month period ending September 30, 1969. Our review showed that 2,104 drums were on hand at various ADO locations and retail outlets throughout Laos. Had in fact the Mission reported BHC sales instead of Sevin, it would have disclosed excess BHC on hand (less than 8% or 19 M/T out of 240 M/T had been sold during an eighteen-month period), thereby possibly initiating transfer action of BHC to other Missions and resultant savings to AID.

Records show that shortly after the above response, senior Mission officials became aware of insecticide excesses. A memorandum on November 16, 1970, to the USAID Director stated that: "After months of study and correspondence, Agriculture Division has no recommendations for using this material or for disposing of it...", and permission was requested to have a Board of Survey determine the quantity of insecticides to be disposed of. On November 28, 1970, such a Board of Survey was authorized to recommend disposal action for insecticides in excess of a six to eight month stock level. Reduction of insecticide stocks was subsequently accomplished by donations (\$11,600) and sales to business interests in Thailand, at a loss to AID of approximately \$61,400. In addition, we noted that \$92,700 worth of insecticides were unaccounted for or reportedly in present insecure areas.

In light of commodity disposal action taken by the Mission and coupled with the fact that no further fertilizer and insecticide assistance to ADO is programmed in the near future, no recommendation is deemed necessary at this time.

E - NAM TAN IRRIGATION PROJECT

Our review showed that the Nam Tan Irrigation Project, when completed, will not be able to irrigate total hectareage originally planned and that, as a result, rice production goals cannot be achieved.

Construction work on this project, a gravity flow irrigation system, consisting of a low-level (21 feet) dam with two main canals, and about 48 miles of irrigation ditches leading to ricefields, located in the Nam Tan area, Sayaboury Province, was started during 1967. The initial Mission Activity Plan (June 1968) showed that the total estimated cost of this project (in all kinds of currencies) was to be approximately \$1,000,000 when complete. Under the project, the Mission's AGR Division (Irrigation Branch) and the Public Works Division were primarily responsible for the engineering designs and the construction of the irrigation system; however, certain other USAID Divisions also provided various inputs. A Contractor, Tonolini Public Works Enterprises, was engaged to perform necessary land clearing operations.

Project objectives were to construct and place into operation a water delivery system capable of delivering a supplemental water supply to an estimated 3,600 hectares during the wet season, and to provide an adequate water supply to produce a dry season rice crop on about 1,000 hectares. It was envisioned that the Nam Tan Project area, when planted with proper cultural practices, could annually produce a rice crop of about 23,000 metric tons (18,000 M/T during the wet season and 5,000 M/T during the dry season). The Nam Tan Irrigation Project was dedicated during March 1971; however, land clearing operations will continue through June 1972. Mission fiscal records show that estimated construction, other, and land clearing costs through Fiscal Year 1972 totaled \$5,193,000, some \$4,200,000 above the initial estimate.

AID/W response on February 23, 1972, to an IGA report dated November 8, 1971, which had cited excess costs incurred, was that "The original estimate of less than \$1,000,000 was for the dam structure and major facilities only, included

no over-head costs that would be obligated by other projects, and used the ¥500 to \$1.00 conversion rate. The \$5,193,000 figure (which is the accepted cost) includes overhead costs as well as obligated direct costs, includes the cost of related activities in addition to the construction of the main irrigation facilities, and uses the 240 to 1 official exchange rate."

Our review of the Nam Tan Irrigation Project under the Agriculture Development Sector Audit was primarily directed to ascertain whether (a) total hectareage presently shown as irrigable at the project site conformed with original project plans, (b) allocation of cleared land was made to authorized recipients in accordance with RLG/USAID generally accepted guidelines, and (c) whether the allocated land was effectively being utilized. No attempt was made to review costs incurred; however, such a review might be scheduled at a later date.

1 - Irrigable Land

Although the 1968 Project Activity Plan envisioned a supplemental water supply to irrigate 3,600 hectares in the Nam Tan area, more recent (1971) Mission documentation refers to only 3,000 hectares. From discussions with USAID project personnel and review of pertinent records, we established that the 3,000 hectare figure was overestimated by another 760 hectares, since the combined irrigable hectareage on the left and right bank total only 2,240 hectares, as follows: Left Bank - 1,168 hectares, comprising of 323 hectares of pre-project existing ricefields and 845 hectares of project cleared lands, of which 30 hectares were allocated for a RLG Demonstration Farm; the Right Bank - 1,072 hectares, comprising of 362 hectares of pre-project existing ricefields and 710 hectares of cleared or clearable land.

2 - Land Distribution

Project personnel stated that all available land on the Left Bank had been fully allocated, by the Sayaboury Provincial Land Committee, and that as of the end of May 1972, 345 of the 710 hectares of new land on the Right Bank

had also been allocated. This Committee, comprised of high-ranking local officials, charged with the responsibility of allocating project lands to eligible recipients, provides "Permits of Temporary Land Cultivation" to farmers, with the understanding that the allocated land is to be cultivated for at least five years prior to permanent title transfer. The maximum size of land to be allocated by the Committee to any new settler was to be 3 hectares. Also, individual pre-project holdings were not to be enlarged beyond the 3-hectare size. However, pre-project holdings larger than the 3-hectare limitation were allowed to remain under existing ownership.

Review of Left Bank land distribution records showed that the 3-hectare limitation was reasonably enforced. We learned, however, that many farmers were not interested in adding new land to their pre-project holdings. Reportedly, farmers felt physically unable to cultivate the additional land, many cited lack of equipment and/or shortage of manpower as their reasons. On the other hand, we learned that some farmers had removed boundary stakes and placed them in neighboring lands, so as to either increase the size of their allocated holdings or to assure a more favorable plot. Farmers had also exchanged allocated lands among themselves without informing the Committee, or the project office, thereby creating possible future difficulties when permanent title to land will be awarded. We also noted that total Left Bank hectareage recorded as allocated in USAID/RLG maintained Land Distribution Records did not reconcile with the total hectareage available for distribution per the Project Cadastral Map. The difference, 106 hectares, we believe, is due to a combination of clerical errors and farmers activity noted above.

3 - Rice Production

Although the primary purpose of the Nam Tan Irrigation Project was to increase rice production, with surpluses to be marketed in rice deficient areas such as Sayaboury and Luang Prabang, we learned that rice production goals originally envisioned, that is 5,000 kg/ha., are presently not being achieved. For instance, surveys performed in the Nam Tan area by RLG/AGR officials during the 1971 wet

season showed that, despite the existence of the Nam Tan Irrigation facility, only 656 hectares were under cultivation (380 on the Left Bank and 276 on the Right Bank). This compares to 685 hectares (323 on the Left Bank and 362 on the Right Bank) that were available for cultivation prior to the construction of the dam. Moreover, data available to RLG/AGR officials, from studies performed during the 1971-72 dry season, showed that during this period only about 200 hectares were under cultivation in the Nam Tan Project area.

Low utilization of available ricefields, according to RLG project personnel, indicates that farmers are presently growing rice for personal consumption purposes, and that rice grown by farmers during the dry season was only to provide sufficient additional rice to carry them through to the next (1972) wet season harvest period. Mission officials stated that reasons for low utilization of land were due to (a) the slow rate at which land was being developed by farmers for rice production purposes, and (b) difficulties encountered in changing farmers' attitudes from a subsistence to a marketing oriented economy.

The Activity Plan envisioned that a paddy yield of approximately 5,000 kg/ha could be attained in the Nam Tan area with the supplementary water supply and improved agricultural practices. Such a yield was based on the assumption that high yielding variety was to be cultivated. According to RLG officials, Nam Tan farmers prefer glutinous rice over white rice when grown for personal consumption purposes. Yields have been reported in the area to vary from 800 to 1,200 kilogram per hectare.

4 - Land Clearing

During interviews held with farmers in the Ban Nasing Village in the Nam Tan area, we learned that felled trees, stumps, and roots had not always been removed, nor had anthills been levelled prior to allocating land to farmers. Under the Contractual Agreement for Nam Tan Land Clearing dated September 30, 1968, as amended, the Contractor is required to level anthills and to remove all limbs, branches, logs, roots and stumps or any material that will interfere with agricultural work.

Progress payments to the Contractor were to be made only for work completed and only when mutually satisfactory and acceptable to duly authorized representatives of USAID and the RLG. The Mission had assigned a Contracting Representative, who was responsible for inspection of work accomplished prior to recommending payment.

Our findings were discussed with responsible USAID and Contractor personnel, and as a result, corrective action was immediately initiated by the Contractor.

Recommendation No. 3

We recommend that USAID/Laos, in cooperation with RLG officials, conduct a survey to determine (a) whether project land presently claimed by farmers is in accordance with USAID/RLG land distribution records, (b) in instances when differences exist, take appropriate action to regularize land holdings, and (c) assure that project land distribution records conform with total hectareage shown per Project Cadastral Map.

Management Comment:

"... Upon receipt of the final report, we will be prepared to report to you what progress we have made and further comments, if any."

Recommendation No. 4

We recommend that USAID/Laos assure that (a) land claimed cleared by the Contractor and for which payment was made was in fact satisfactorily accomplished, and (b) payments to the Contractor are only made when work performed is mutually satisfactory and acceptable to authorized USAID and RLG representatives.

Management Comments:

"... Upon receipt of the final report, we will be prepared to report to you what progress we have made and further comments, if any."

F - JAPANESE GOVERNMENT DONATED FARM EQUIPMENT

ADO records show a liability of K136,400,000 (\$272,800) in favor of the Government of Japan (GOJ) which is invalid. Moreover, it appears total payments made to the GOJ of K60,000,000 (\$120,000) may not be proper.

From review of ADO and Mission records and discussions with cognizant personnel, we learned of approximately \$900,000 worth of Japanese agricultural equipment and other commodities which had been donated by the GOJ to the RLG under various bilateral agreements under authority of the Food Aid Convention (FAC) of the International Cereal Agreement of 1967. Briefly, the GOJ as a party to the Convention, had agreed to contribute wheat, coarse grains, or the cash equivalent thereof, as aid to developing countries of its choice. Records show that the RLG and the GOJ entered into three separate FAC agreements totaling \$1,200,000, two of which totaling \$900,000 are of direct concern to ADO, as follows:

(1) The bilateral FAC Agreement of December 24, 1968, provided for the purchase of \$300,000 worth of rice and \$200,000 worth of agricultural equipment primarily consisting of pumps, tractors, harvesters, threshers, sprayers and rice-mills. The agreement specifically stated that \$450,000 of the above aid was for donation and that the remaining \$50,000 was to be sold for Lao currency. The RLG was to deposit the Kip equivalent of the \$450,000 (K227,300,000) and \$50,000 (K25,300,000) referred to above into two separate accounts at the Vientiane Branch of the Bank of Tokyo. The first to be in the name of the RLG and the latter in the name of the GOJ.

The required deposits were not made by the RLG. Instead, the GOJ transferred the Kip equivalent of the then prevailing K505 rate to US\$1.00 from its account at the Foreign Exchange Operations Fund (FEOF) in the name of the RLG to the Bank of Tokyo. The deposit of the Kip equivalent of the remaining \$50,000 (K25,300,000) was made by ADO (February 26, 1971) to an account in the name of the GOJ at the above bank.

Mission records show that in consideration of the Japanese rice and farm equipment donation, the USAID on December 23, 1968, contributed \$400,000 to FEOF. The rationale was that the GOJ contribution was a direct offset to funds originally earmarked by the Mission for assistance to refugee relief (\$300,000) and ADO (\$100,000). The Kip generated from the sale of the \$400,000 was to be paid to the National Bank of Laos for retirement of debt owed to the Bank by the Royal Lao Government.

The Mission, on April 7 and April 8, 1969, issued PIO/C's #439-065-0-90358 for the agricultural equipment and #439-063-0-90357 for the rice. The documents were issued to record the specifications and quantities of rice and agricultural equipment to be provided by the GOJ, including the fact that in consideration for the rice and the equipment, the USAID was to make a \$400,000 deposit to FEOF for retirement of debt owed to the National Bank of Laos by the RLG.

Paragraph A(3) of PIO/C No. 439-0-90358 specifically states that: "The proceeds of sale of these commodities shall be retained by the Agricultural Development Organization for use in its programs of encouraging agricultural production in Laos."

In a "Memorandum of Agreement" between the Executive Manager of ADO and the RLG Secretary of State dated February 20, 1969, the Kip retail price for the agricultural equipment listed in the above PIO/C was established. The memo also stated that ADO would pay the transportation and insurance costs for shipping the equipment from Japan and that the "remainder of the Kip receipts generated by the sale of this equipment shall become part of the ADO operating capital fund".

(2) The bilateral FAC Agreement of December 23, 1969, as amended on December 18, 1970, is similar to the 1968 Agreement and provides for the purchase of \$700,000 worth of agricultural equipment from Japan. The Agreement states that agricultural equipment in the amount of \$630,000 (K318,200,000) shall be for donation and the remaining \$70,000 (K35,400,000) shall be for Lao currency.

As was the case with the 1968 Agreement, the required deposits were not made by the RLG. Instead, the GOJ transferred the Kip equivalent of both the \$630,000 and \$70,000 from its FEOF account in the name of the RLG at the Vientiane Branch of the Bank of Tokyo. In addition, a deposit of the Kip equivalent of \$70,000 was made by ADO (February 26, 1971) in the name of the GOJ at the above bank. While the Agreement provides for the donation of \$700,000 worth of agricultural equipment, only approximately \$500,000 was provided to ADO. The remaining \$200,000 was donated by the GOJ to the RLG Ministry of Social Welfare in support of the refugee program.

ADO financial records as of January 31, 1972, show that sales of the Japanese FAC equipment totaled K231,100,000 (\$462,000). (K105,400,000 for cash, of which K80,000,000 was paid from Counterpart Funds for 450,000 "Panzex Bags" for use by the USAID Refugee Relief Branch, and K125,700 on credit.) Freight and insurance charges for the first and second round of FAC equipment totaled K58,900,000 (\$117,800) which was paid from the proceeds of the sale of the Panzex Bags.

1 - Reserve for Japanese Government

There presently is recorded on ADO's Balance Sheet as of May 31, 1972, a liability of K136,400,000 (\$272,800) in favor of the GOJ. This liability, according to ADO officials, was set up pending final agreement between the RLG and the GOJ as to disposition of funds collected by ADO from the sale of the FAC equipment under the above agreements. Based on our review of records and discussions with cognizant personnel including GOJ Embassy officials, we have concluded that the entry is not a valid liability. Our opinion is based on the following:

(a) Reference was made both in PIO/C #90358 and the Memorandum of Agreement between ADO and the RLG Secretary of State that the proceeds of sales of the FAC equipment and commodities was to become part of the ADO operating capital,

(b) the applicable bilateral FAC agreements specifically differentiate between total agricultural commodities for donation and for sale, that is in the first agreement \$450,000 for donation and \$50,000 for sale and the second agreement \$630,000 for donation and \$70,000 for sale, and

(c) GOJ Embassy officials informed us that the GOJ is not interested in either the accounting for or the utilization of funds derived by ADO from the sale of the donated Japanese commodities.

2 - ALJ Payments

Records show that on February 26, 1971, ADO deposited \$60,000,000 (\$120,000) in Account No. 137, Government of Japan at the Bank of Tokyo, Ltd., Vientiane, Laos office. The deposit was made by ADO in response to a number of requests by GOJ officials, who cited the provisions of the two bilateral FAC agreements between the RLG and the GOJ dated December 24, 1968, and December 23, 1969, as previously discussed. Briefly, the provisions provided that of the approximately \$1,200,000 worth of food and agricultural equipment donated to the RLG, \$120,000, or 10 percent was to be for sale in Lao currency, with proceeds thereof to be deposited in the above Bank.

Correspondence (February 2, 1971) between ADO and the RLG Director of Agriculture indicates that ADO was not wholly convinced that it was solely liable for the entire \$120,000 and suggested that it should pay only \$20,000. ADO's reasoning was based on the fact that:

(a)-(1) ADO was not a party to the above agreements; (2) that under the 1968 FAC bilateral agreement totaling \$500,000, ADO had actually received \$200,000 worth of agricultural equipment; (The remaining \$300,000 was for rice donated to refugees) and (3) if ADO were to pay the entire \$50,000 (10%), ADO would in reality pay 25% of the FOB value of the Japanese donated farm equipment.

(b) Under the 1969 Agreement, ADO reasoned that since the GOJ had already transferred the Kip equivalent

of the \$700,000 worth of agricultural commodities to the account of the RLG, ADO believed that it should not be liable for the \$70,000. Moreover, ADO had only received \$500,000 worth of the equipment, and the remaining \$200,000 had been donated by the GOJ to the RLG Ministry of Social Welfare.

ADO files do not contain documentation indicating whether it was officially determined by the RLG that ADO was fully responsible for payment of the \$120,000 GOJ claim. However, on February 26, 1971, based on RLG tacit approval, the payment was made.

From our review, however, of the underlying Food Aid Convention Agreement of November 30, 1967, and the two cited FAC bilateral agreements between the RLG and the GOJ, we have concluded that the \$120,000 payment made by ADO to the GOJ was not proper. Our conclusion is based on the fact that Article II(4)a & b of the Food Aid Convention of November 30, 1967, specifically states that:

"(4) Food aid in the form of grain shall be supplied on the following terms:

(a) sales for the currency of the importing country which is not transferable and is not convertible into currency or goods and services for use by the contributing country. 1/

(b) a gift of grain or monetary grant used to purchase grain for the importing country.

1/ Under exceptional circumstances an exception of not more than 10 percent could be granted." (Underscoring supplied)

Since the GOJ in its bilateral FAC Agreements with the RLG specifically stated that 10 percent of the \$1,200,000 food and agricultural equipment aid, or \$120,000 was to be for sale in Lao currency, and the remaining \$1,080,000 for donation, we believe that 10 percent of \$120,000, or \$12,000, should have been deposited by the RLG in the account of the

Japanese Government, of which conceivably, ADO should have been liable for \$7,000.

Recommendation No. 5

We recommend that USAID/Laos request ADO to take necessary action to assure that the liability totaling K136,400,000 (\$272,800) presently recorded in favor of the Government of Japan be eliminated.

Management Comment:

"... At the Administrative Council meeting of July 27, 1972, it was decided that a further request should be made to the Japanese Embassy to seek clarification of this point. The document has been drafted and is being reviewed by the Council members with the expectation that it will be forwarded to the Japanese Embassy during the early part of August. Notwithstanding the yet unresolved nature of this transaction with the Government of Japan, ADO has taken action in accordance with Recommendation 7 (Audit Note: Now Recommendation No. 5) to eliminate the liability of Kip 136.4 million from its financial statement. It will make whatever entries are appropriate when conclusions are reached with the Japanese Government regarding the disposition of these funds."

Recommendation No. 6

We recommend that USAID/Laos (a) obtain a legal opinion whether the K60,000,000 (\$120,000) payment made by ADO to the Government of Japan is proper, and (b) if determined improper, take necessary corrective action.

Management Comment:

"... upon receipt of the final report we will be prepared to report to you what progress we have made."

G - IRRIGATION PUMPS

Our review showed that the majority of the irrigation pumps provided by the British Government (BG) to increase rice production in Laos during dry seasons are presently inoperative.

In early 1967, BG officials in Vientiane offered to contribute a number of diesel-operated irrigation pumps to Laos in support of the RLG's effort to increase rice production during dry season. These pumps consisting of 51 six-inch and 27 eight-inch units, reportedly valued at approximately \$230,000, were to be sold on credit under a plan drawn up by ADO to associations of Lao farmers. ADO records show that the pumps were sold to farmer "pump groups" at K450,000 (\$900) for the smaller units and K600,000 (\$1,200) for the larger units. In addition, there was an installation charge of K150,000 (\$300) to pump groups for each pump installed.

The agreement between RLG and BG officials required that the money received from farmers in payment of pumps, was to be paid into a revolving fund managed by ADO, to be used for purposes of procuring further British pumps or such other agricultural equipment as was to be agreed between the RLG and the BG. ADO was to inform BG officials, on a regular basis, as to the status of the fund.

1 - Pump Installation and Utilization

The pumps arrived intermittently in Laos during 1967, 1968, and 1969. Records show that by February 1968, sixteen pumps had been or were in the process of being installed. By September 1970, some thirty-eight pump sites had been constructed, utilizing most of these pumps and reportedly provided sufficient water to irrigate approximately 1,340 hectares. As of the above date several of the earlier pump sites had failed, which had been attributed by ADO officials to "... inadequate research into farmer production costs, rice varieties to be planted, and the extent of overhead costs and the ability and willingness of participants to pay them."

By September 1971, ADO officials informed the Mission that sixteen pump sites were known to be still operative, providing water to approximately 320 hectares. During our review (May 1972), we learned that pump sites had further declined to nine, seven of which, situated along the Mekong River in the vicinity of Vientiane, were visited by AG staff, accompanied by ADO and RLG personnel.

From observations and based on interviews held with participating farmers, pump group leaders and pump operators, we concluded that these pump sites would have also ceased operation, if ADO, with the authorization of the Administrative Council, had not provided, albeit on credit, continued support in the form of POL, spare parts, and payment of salaries to both pump group leaders and pump operators, irrespective of the fact that pump group accounts were seriously delinquent.

2 - Rice Production

From a study made by ADO officials (September 1971), we learned that estimates as to the production cost of 1 kilogram of rice paddy (based on 4,000 kg/ha yield) during the 1970 dry season at pump sites varied from a low of K17.4/kg to a high of K27.6/kg depending on application of different labor cost studies available in the Mission.

From discussions with RLG officials, farmers and rice-mill operators, we learned that the price of paddy at the mill varied from a low of K20 to K30 per kilogram. Thus conceivably, a farmer, based on a 4,000 kg/ha yield, could have had a small cash return depending on his labor cost input. However, farmers and RLG Extension agents stated that the yield per hectare ranged from 1,200 to 2,000 kilograms as compared to the 4,000 kg/ha ADO estimate. The reported yield, in many instances, was insufficient to meet the farmer's own consumption requirements, since the average hectareage of farmers participating in pump groups visited was less than 1.2 hectare.

The 4,000 kg/ha yield discussed above was based on the assumption that farmers were to use improved varieties of

seed, correct application of fertilizers and insecticides, and proper irrigation techniques. A number of farmers we interviewed stated that they had planted local glutinous type (low-yielding) varieties, primarily for personal consumption purposes.

3 - Pump Payments

Analysis of available ADO-maintained Pump Group Accounts Receivable Cards showed that nearly all accounts were seriously delinquent. In many instances, little, if any, had been paid by pump groups during the last two years. Despite this delinquency, ADO is still providing operational assistance, on credit, as discussed above, without assurances that outstanding balances will ever be collected.

ADO officials during March 1972, made a study of amounts owed by each participating farmer in active pump groups. This was primarily done to facilitate future collection action. Individual amounts owed were calculated based on the extent of agricultural inputs provided by ADO on credit, plus the pumps, installation and operational costs.

ADO records show that for the Vientiane area alone, 181 farmers owed K14,030,000 (\$28,100) with individual accounts ranging from K15,000 (\$30) to K200,000 (\$400), the average account being K77,500 (\$155). We believe that amounts owed ADO cannot be collected at this time without creating severe economic hardship on farmers. Moreover, the accuracy of amounts calculated by ADO are questionable for reasons cited in Section B, Accounts Receivable Cards. In addition, it should be noted that for the past three wet season crop production periods, these farmers had their lands flooded and their planted crops completely destroyed.

Although ADO fiscal records in support of pump sites are generally incomplete, we were able to determine from available documentation and review of inactive accounting records that fifteen pump sites, which had either been abandoned by farmers or terminated by ADO, had outstanding balances amounting to K11,600,000 (\$23,200). These amounts are presently not included in total ADO Accounts Receivable,

although there is no evidence to show that amounts had been approved for write-off.

4 - ADO Revolving Fund

As previously stated, BG officials required that funds collected from the sale of pumps (K39,150,000 or \$78,300) were to be deposited into a revolving fund for future British farm equipment purchases. Such revolving fund was never established, nor had BG officials been informed as to the status of the pump project. Cash or in kind payments made by pump groups instead had been used by ADO in support of general operations. We also noted instances when sales of new or used (repossessed) pumps had been made to individuals or entities other than farmers' associations, and that funds derived therefrom had also been used by ADO.

Recommendation No. 7

We recommend that USAID/Laos require ADO to perform a detailed review of available pump group records to (a) determine total funds collected and to be collected from the sale of British pumps, (b) establish the required "Revolving Fund" based on data developed in (a) above, and (c) inform British officials as to the status of the pump project.

Management Comment:

"No action taken as yet. This review will be started upon arrival of the new Controller; sufficient manpower will then be available to complete this review and establish the fund."

In our draft report we also recommended that USAID/Laos require ADO to include in its Accounts Receivable the K11,600,000 (\$23,200) for the fifteen pump sites which were either abandoned by farmers or terminated by ADO, pending final determination as to collectability. In response the mission advised:

"ADO has already included in its accounts receivable the 11.6 million kip for the 15 abandoned pump groups.

ADO's year-end financial statements reflect this action.
ADO's credit/collection department will determine the
collectability of these 15 accounts."

In view of this advice we have withdrawn our recommendation.

H - FINGERLING PRODUCTION AND DISTRIBUTION

Our review showed that Carp fingerling distribution to farmers and fish culturists had been significantly below the production capability of the RLG fish culture stations and that this was due to (a) absence of active sales and promotion programs, (b) general lack of interest by farmers and fish culturists, and (c) poor security in certain areas.

Analysis of U.S. Consultants, Inc. (Contractor) "Monthly Fish Distribution Report" dated May 5, 1972, showed cumulative fingerling distribution by the three RLG fish culture stations from inception (July 1967) to April 30, 1972, totaling 2,600,000 as follows:

	<u>Nong Teng</u>	<u>Pakse</u>	<u>Luang Prabang</u>	<u>Total</u>
1968	130,820	121,043	50,790	302,653
1969	152,930	228,050	267,800	648,780
1970	230,945	131,725	197,189	559,859
1971	197,840	208,677	198,816	605,333
1972 (10 months)	<u>274,057*</u>	<u>76,587</u>	<u>137,521</u>	<u>488,165*</u>
	<u>986,592</u>	<u>766,082</u>	<u>852,116</u>	<u>2,604,790</u>

* Includes 101,000 fingerlings released in the NamNgum Reservoir during October 1971, and March 1972.

Project documentation showed that by FY 1969 the fish stations were already capable of producing approximately 1,300,000 fingerlings and that from FY 1970 onward, a production figure of 2,800,000 fingerlings (Nong Teng 1,300,000, Pakse 1,000,000, and Luang Prabang 500,000) per year could be attained.

Project personnel confirmed that the fish culture stations are presently capable of producing a minimum of 2,800,000 fingerling annually, but that such production is not desirable, since fingerling distribution and marketing programs of such proportion had not yet been developed.

Records show that in April 1968, an effort was made by the USAID and the RLG to organize a Fisheries Extension Program, for purposes of "Popularizing fish culture among Laotian farmers and fish culturalists, and to provide technical assistance as needed." The participants under this program were the RLG Fisheries Branch, the RLG Agriculture Extension Service, the USAID Agriculture Division and the Contractor. The RLG Fisheries Branch, with the cooperation of the Contractor, was to take the initiative by providing (a) technical training to the RLG Agriculture Extension Agents, (b) technical guidance to farmers on pond construction, stocking density, feeding and other technical matters, and (c) to sell fingerlings to stock ponds and rice paddies. The RLG Fisheries Branch was also to provide fingerlings and other technical support required to conduct fish/paddy research experiments, and to publicize fish culture through radio broadcasts, posters and other advertising media.

From discussions with the Director of the RLG Fishery Department, we learned that shortly after the program plan was approved, the Director departed Laos for an eight-month fishery training course in Japan, and that to his knowledge, little, if any, activity took place during his absence. Moreover, since his return to Laos in early 1969, no real effort was made by the RLG Fishery Department in establishing a fisheries extension program. Reasons cited were (a) lack of qualified personnel, (b) shortage of funds, and (c) lack of direction and interest in the program.

One of the primary reasons for depressed fingerling distribution, according to RLG officials, was that farmers were generally too poor and, therefore, reluctant to invest from K3 to K10 per fingerling. Moreover, the mortality rate of fingerlings was reportedly very high, ranging from 70-80% of those procured, because fingerlings had been stocked in established ponds frequently containing carnivorous fish.

To foster possible increased farmers' participation, a plan was proposed (March 1971) by the Director of Fisheries to senior officials at the RLG Water and Forestry

Department, under which eligible farmers during the first year of operation could obtain required fingerlings free of charge, and procure fingerlings at greatly reduced prices during the next few years. This plan, although approved in principle, had not been put into operation pending results from surveys started during December 1971, throughout Laos, to ascertain the number of natural and farm ponds in various provinces and to determine the feasibility of eventually stocking such ponds with fingerlings produced by the fish culture stations.

We noted from RLG available survey reports (June 1972) that the majority of farmers interviewed were generally not interested in raising carp for commercial purposes. Of 193 farmers interviewed in the Vientiane, Pakse, and Luang Prabang provinces, 120 farmers did not want to raise carp for either commercial or personal consumption purposes, although interest was expressed in raising popular fish such as Catfish and Snakeheads. The remaining seventy-three farmers indicated some interest in raising carp, however, primarily for personal consumption purposes. Survey reports cited one or more of the following reasons for lack of interest by farmers: (a) lack of adequate capital, (b) fear of flood or natural disaster, (c) carp not being popular with Lao consumers, (d) mortality rate of carp is high, (e) carp raising needs constant attention and is costly, and (f) for marketing purposes, carp does not keep long. In connection with the latter, it should be noted that Catfish and Snakeheads have breathing apparatuses similar to lungs, which enable the fish to breathe air for hours while out of water.

Based on the above surveys made and coupled with the fact that total fingerling distribution by fish culture stations since FY 1969 has not materially increased, we can only conclude that the primary objective of the project, that is, increased fish production and a marked decrease of fish imports is presently not being realized, and that the program should be evaluated to include popular fish. This could be accomplished by consolidating carp fingerling activity in one or more existing fish culture stations, and utilizing excess facility for raising other fingerlings.

The above was discussed with RLG Fishery officials, who generally agreed with our observations.

Recommendation No. 8

We recommend that USAID/Laos (a) periodically review with RLG Fishery officials the result of surveys being performed, to ascertain the acceptability and interest by Lao farmers for carp raising, (b) assure that the RLG will provide fingerlings free of charge or at greatly reduced prices to those farmers having shown interest in raising carp, and (c) encourage the RLG in a program for purposes of raising Catfish, Snakeheads or other fingerlings more acceptable to Lao farmers.

Management Comment:

"Upon receipt of the final report, we will be prepared to report to you what progress we have made and further comments, if any."

I - CONTAMINATED BEEF

Contaminated canned beef made available by USAID for fish feed at the fish culture stations was also being consumed by station personnel.

During this audit, we selectively traced the disposition and final end-use of approximately 2,810 cases of contaminated beef, made available by the USAID during December 1971, for fish feed purposes. The canned beef which was procured by the Mission for refugee feeding purposes, at a cost of approximately \$34,500 from the Preserved Food Organization of Thailand under Contract AID-439-70-RR-0113-001-1 was suspected to contain viable bacteria, indicating a possible breakdown in the sterilizing process at the plant.

In a memorandum dated November 10, 1971, the USAID Chief of Public Health Division informed Mission management that based on laboratory reports, there was evidence of possible contamination of the beef because of incomplete sterilization, and recommended that the beef be used as animal feed in either the fish or swine programs. The beef was subsequently made available to RLG Fish Culture Stations, since Mission officials were reluctant to use it in the swine program, for fear that people would eat the contaminated beef.

From discussions with RLG Fishery personnel at both Nong Teng and Luang Prabang, we learned that some chunk beef was being eaten by station personnel and their dependents, although they were generally aware that the beef had been declared unfit for human consumption.

We noted that individual cans had not been marked to show that the contents were determined unfit for human consumption. In our opinion, adverse criticism of the AID program in Laos could be averted by assuring that marking is being accomplished. If marking is not feasible, we believe that contaminated commodities should be destroyed rather than risking that unmarked containers fall into unsuspecting hands.

Recommendation No. 9

We recommend that USAID/Laos assure (a) that beef or other commodities determined unfit for human consumption are properly marked, and (b) if not feasible, they be promptly destroyed.

Management Comment:

"Upon receipt of the final report, we will be prepared to report to you what progress we have made and further comments, if any."

J - NON-EXPENDABLE PROPERTY RECORDS

Review of Non-Expendable Property (NXP) Records showed many instances when required records had either not been established or were inadequately maintained.

We reviewed 653 items of NXP, procured by USAID under PIO/C procedures for use by subactivities of the Agriculture Development Sector. Our review showed that of the 653 items, 219 items (34%) had not been recorded on NXP records, although certain items had been in Laos since 1968. Discrepancies noted by subactivity are shown below:

<u>Subactivity</u>	<u>Total Items</u>	<u>Not Recorded</u>	<u>Percentage Not Recorded</u>
Irrigation	206	44	21.3
Extension	116	34	29.3
ADO	247	112	45.3
Fisheries	67	12	17.9
Admin-Planning	<u>17</u>	<u>17</u>	<u>100.0</u>
	<u>653</u>	<u>219</u>	

During the course of this audit, corrective action was being taken by responsible ADO Property personnel who established NXP records, and furthermore physically located assigned Non-Expendable Property.

It should be noted that title to property used in USAID/Laos is normally vested in the RLG. However, possession and operating control is often retained by USAID. Mission Manual Order 1400.3 requires that Project Managers insure that records and controls for project commodities are established throughout its useful life or until three years after the termination of the project.

In our draft report we recommended that USAID/Laos require that all subactivities under the Agriculture Development Sector (a) establish and maintain required Non-Expendable Property Records, and (b) physically locate assigned non-expendable property. In response, the Mission advised:

"ADO has established non-expendable property record cards, and physically tagged each piece of property with an appropriate identification number."

In view of this advice we have withdrawn our recommendation.

K - STOCK RECORD CARDS

ADO and Agriculture Seed Warehouse Stock Record Cards had been inaccurately maintained, resulting a numerous instances when balances per card did not agree with quantities of stock on hand.

1 - ADO Supply Section

Comparison of Stock Record Card (SRC) balances with physical inventories taken by ADO personnel on February 29, 1972, at their Vientiane and Savannakhet warehouses showed many differences. We noted that 145 out of 169 SRC (86%) did not agree with stock quantities reported as per the inventories as follows: Sixty-seven line items showed overages and seventy-eight line items showed shortages. No explanations were readily available for these differences at the time of our analysis.

Further review of SRC which were maintained by the ADO Supply Section in Vientiane for all six ADO locations, showed numerous adjustments without sufficient explanation or reference to supporting documentation, thus indicating lack of adequate stock control. Moreover, adjustments shown in SRC had not been recorded in ADO financial records. For example, a selective review of thirty-four SRC for Vientiane, Savannakhet and Thakhek showed sixty-two upward adjustments totaling K17,200,000 (\$34,400) and 123 downward adjustments totaling K21,800,000 (\$43,600).

The above discrepancies were reviewed with ADO officials within their efforts to improve ADO financial reporting. As a result, action was taken to ascertain reasons for differences between SRC balances and the February 29, 1972, inventory. As of May 1972, significant improvements were noted in accounting for inventories.

We also noted that there presently is no firm policy in ADO as to when and how inventories should be taken and what action is required if differences are noted. ADO officials stated that they were in the process of developing such guidelines.

2 - AGR Seed Warehouse

Reconciliation of SRC balances with available commodities in the AGR Vientiane Seed Warehouse showed that eighteen out of fifty-three cards, or 34%, did not agree with quantities on hand. Overages existed in twelve line items and shortages in six line items. There was no evidence to indicate that inventories had ever been taken to assure the accuracy of SRC balances.

In our draft report we recommended that USAID/Laos require responsible ADO and Agriculture Division personnel to (a) periodically perform physical inventories, and (b) investigate and resolve differences between SRC and such inventories. In response, the Mission advised:

- "(a) ADO performs physical inventories in each of its supply locations on a monthly basis.
- "(b) Procedures have been established by ADO supply personnel in the investigating and handling of discrepancies discovered during the monthly physical inventories."

In view of this advice we have withdrawn our recommendation.

PART V - GENERAL COMMENTS

On August 1, 1972, an Exit Conference was held with senior management officials under the chairmanship of the Acting Director, USAID/Laos. Mission officials stated that they intend to take immediate action on most of the deficiencies reported, and that it was hoped that upon receipt of the final report, substantial progress could be reported.

Corrective action had been taken by the Mission on six audit recommendations contained in five prior audit reports pertaining to the Agriculture Development Sector as follows:

<u>Audit Report Number</u>	<u>Title</u>	<u>Date Issued</u>	<u>Number of Recommendations</u>
69-7	Fisheries	Nov. 15, 1968	1
69-13	Administration & Planning	May 12, 1969	0
69-17	Agriculture Extension	Jun. 6, 1969	0
70-17	Irrigation	Apr. 8, 1970	2
70-27	AGR Development Organization	Jun. 20, 1970	3

We also noted that corrective action had been taken by the Mission on a recommendation made by IGA in their report dated November 5, 1971, pertaining to development of an ADO Manual of Instructions.

AGRICULTURE DEVELOPMENT SECTOR
PROJECT NO. 439-11-190-065

Summary of Obligations and Expenditures for the Period July 1, 1963, to March 31, 1972
(In Thousands)

Dollar Assistance	Crops & Soil 439-11-190-065-1		Livestock 439-11-190-065-2		Irrigation 439-11-190-065-3		AGR Extension 439-11-190-065-4		AGR Dev. Org. 439-11-190-065-5		Fisheries 439-11-190-065-6		Admin. and Planning 439-11-190-065-7		Total		Balance	
	Obligation	Expenditure	Obligation	Expenditure	Obligation	Expenditure	Obligation	Expenditure	Obligation	Expenditure	Obligation	Expenditure	Obligation	Expenditure	Obligation	Expenditure		
U.S. Personnel Costs	\$ 591.2	\$ 582.4	\$ 330.0	\$ 330.0	\$ 1,948.3	\$ 1,827.5	\$ 652.5	\$ 636.4	\$ 867.1	\$ 762.5	\$ 493.1	\$ 384.5	\$ 1,275.4	\$ 1,198.5	\$ 6,157.6	\$ 5,721.8	\$ 435.8	
TEN Personnel Costs	24.0	22.6	19.3	17.1	1,069.2	1,016.1	111.8	106.6	40.2	39.1	-	-	65.8	64.7	1,330.3	1,266.2	64.1	
Participants	225.2	204.4	21.3	19.1	113.5	91.1	212.2	194.0	31.0	21.3	21.0	17.0	10.9	7.7	635.1	554.6	80.5	
Commodities	983.8	957.8	312.3	298.1	1,786.1	1,712.5	452.1	426.8	2,230.0	2,133.4	103.5	102.4	45.8	41.8	5,913.6	5,672.8	240.8	
Other Costs	68.8	64.1	30.2	29.0	178.0	165.5	44.8	40.0	636.4	586.5	6.9	6.1	53.5	50.0	1,018.6	941.2	77.4	
Total	\$ 1,893.0	\$ 1,831.3	\$ 713.1	\$ 693.3	\$ 5,095.1	\$ 4,812.7	\$ 1,473.4	\$ 1,403.8	\$ 3,804.7	\$ 3,542.8	\$ 624.5	\$ 510.0	\$ 1,451.4	\$ 1,362.7	\$ 15,055.2	\$ 14,156.6	\$ 898.6	
Local Currency																		
U.S. Owned/Trust Funds																		
Personnel Costs	₦ 2,580.7	₦ 2,498.5	₦ 2,172.5	₦ 2,082.5	₦196,508.6	₦193,675.4	₦ 14,973.1	₦ 14,322.3	₦ 11,689.8	₦ 11,689.8	₦ -	₦ -	₦ 38,780.7	₦ 38,157.0	₦ 266,705.4	₦ 262,425.5	₦ 4,279.9	
Commodities	20,755.1	20,726.2	5,403.7	5,403.7	11,551.8	11,278.4	7,907.8	5,583.8	-	-	1,122.4	1,122.5	-	-	46,740.8	44,114.6	2,626.2	
Other Costs	63,382.6	61,923.9	9,216.8	9,084.4	132,275.0	131,617.6	73,371.7	67,014.9	215,581.4	215,581.4	71,418.7	68,840.8	4,352.6	3,817.8	569,598.8	557,880.8	11,718.0	
Total	₦ 86,718.4	₦ 85,148.6	₦ 16,793.0	₦ 16,570.6	₦340,335.4	₦336,571.4	₦ 96,252.6	₦ 86,921.0	₦227,271.2	₦227,271.2	₦ 72,541.1	₦ 69,963.3	₦ 43,133.3	₦ 41,974.8	₦ 883,045.0	₦ 864,420.9	₦18,624.1	
Counterpart Fund																		
Personnel Costs	₦ 54,331.7	₦ 54,331.7	₦ 56,443.1	₦ 56,443.1	₦ 15,059.8	₦ 15,059.8	₦ 46,953.4	₦ 46,953.4	₦ -	₦ -	₦ -	₦ -	₦ 7,777.5	₦ 7,777.5	₦ 180,565.5	₦ 180,565.5	₦ -	
Commodities	4,935.9	4,935.9	26,705.5	26,705.5	3,003.4	3,003.4	19,197.5	19,197.5	51,225.0	51,225.0	-	-	-	-	105,067.3	105,067.3	-	
Other Costs	21,925.3	21,925.3	19,362.7	19,362.7	6,921.5	6,921.5	28,488.2	28,488.2	-	-	-	-	645.5	645.5	77,343.2	77,343.2	-	
Total	₦ 81,192.9	₦ 81,192.9	₦102,511.3	₦102,511.3	₦ 24,984.7	₦ 24,984.7	₦ 94,639.1	₦ 94,639.1	₦ 51,225.0	₦ 51,225.0	₦ 0	₦ 0	₦ 8,423.0	₦ 8,423.0	₦ 362,976.0	₦ 362,976.0	₦ 0	
Total Loc. Currency	₦167,911.3	₦166,341.5	₦119,304.3	₦119,081.9	₦365,320.1	₦361,556.1	₦190,891.7	₦181,560.1	₦278,496.2	₦278,496.2	₦ 72,541.0	₦ 69,963.3	₦ 51,556.3	₦ 50,397.8	₦1,246,021.0	₦1,227,396.9	₦18,624.1	
Dollar Equivalent	\$ 699.6	\$ 693.1	\$ 497.1	\$ 496.2	\$ 1,522.2	\$ 1,506.5	\$ 795.4	\$ 756.5	\$ 1,160.4	\$ 1,160.4	\$ 302.3	\$ 291.5	\$ 214.8	\$ 210.0	\$ 5,191.8	\$ 5,114.2	\$ 77.6	
Total Assistance	\$ 2,592.6	\$ 2,524.4	\$ 1,210.2	\$ 1,189.5	\$ 6,617.3	\$ 6,319.2	\$ 2,268.8	\$ 2,160.3	\$ 4,965.1	\$ 4,703.2	\$ 926.8	\$ 801.5	\$ 1,666.2	\$ 1,572.7	\$ 20,247.0	\$ 19,270.8	\$ 976.2	

1/ Audit reports issued during FY 1972 projects not included in this review

2/ Reviewed during this audit.

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U.S. Consultants - Contract AID-439-699
Arrival and Departure of Contract Personnel
As of March 1972

<u>Name</u>	<u>Position Title</u>	<u>Date of</u>	
		<u>Arrival</u>	<u>Departure</u>
Sugitani, Saburo	Project Supervisor	4/ 2/66	7/ 3/68
		7/30/68	8/ 6/70
		9/ 6/70	<u>1/</u>
Suzuki, Conjiro	Fishery Specialist	3/31/67	7/15/70
		8/16/70	<u>1/</u>
Masuo, Manekazu	Fishery Specialist	11/12/67	6/29/70
		7/31/70	<u>1/</u>
Ishii, Gentaro	Fishery Specialist	4/ 2/66	4/24/68
		5/23/68	3/ 4/69
		5/ 7/69	5/14/70
Taki, Yasuhiko	Fishery Specialist	4/ 2/66	4/20/67
		5/ 1/70	5/30/71

1/ At Post March 31, 1972.

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