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Auditor General

AUDIT REPORT

ON

EXAMINATION OF THE INDIA AID PROGRAM

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Area Auditor General Near East
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BACKGROUND AND SCOPE

Background

Through 1971, the United States Government provided India with about $10 billion in development loans and technical assistance and food aid. In the 10 years prior to that date, U.S. economic assistance averaged slightly more than $600 million annually. Roughly, each year about $300 million was made available in the form of development loans and grants; the balance was provided in food aid, mostly under PL 480, Title I credit sales.

The 1971 Indo-Pakistan war led to suspension of U.S. development programs to Pakistan and India. Subsequently, a large-scale foreign assistance program was resumed in Pakistan but not in India. Although an offer was made to India to continue a scaled-down technical assistance program, in the existing chilly political atmosphere, the Government of India (GOI) indicated that it wished to phase out entirely the U.S. Aid program authorized by the Foreign Assistance Act.

Food aid under PL 480 Title I credit sales was also suspended from 1972 through 1974. In 1975 and 1976 shipments resumed again at about half a million tons of wheat valued at about $100 million per year. In 1977, wheat continued to be allocated for India, but it was not sent because of record harvests and high stocks. Vegetable oil worth $25-35 million per year was provided in 1977 and 1978.

Food donations through U.S. voluntary agencies and the internationally supported World Food Program continued throughout the '70s. These agencies provide food for child feeding and food-for-work projects. Commodities valued at roughly $100 million plus freight of approximately $30 million were shipped in both FY 1977 and 1978.

The United States also continued to contribute to Indian development through its participation in multilateral assistance agencies such as IDA and the World Bank. The U.S. provides over 30 percent of IDA's soft loan replenishment funds which would indirectly amount to over $200 million of IDA's annual commitments of roughly $600 million to India.

USAID/India resumed operations as a Mission in May 1978 and is currently staffed with 11 direct hire U.S. employees and 40 foreign national employees. The Mission had a $263 million program in FY 78 consisting of about $186 million in PL 480 food assistance and a development program of $60 million including projects in Irrigation, Malaria and Science and Technology. In addition there was a Special Foreign Currency appropriation (Excess U.S. Government owned rupees) of $13.7 million for the St. John Medical College. AID also funded an emergency food program of $2.5 million and a $500,000 grant to the Cooperative League of the U.S.A. The FY 1978 operating expenses totalled about $1.1 million of which about $633,500 was expended by USAID/India. The balance was expended by AID/W for direct hire American salary costs.

Congressional approval for resumption of the $60 million development program for India was delayed until late in FY 1978 for a number of reasons. For example, in July hearings before the Committee on Appropriations, House of Representatives, there was strong resistance to resuming the program because India (a) was experiencing a favorable balance of trade, (b) had accumulated foreign exchange reserves in excess of $6 billion (c) was holding U.S. treasury securities of about $600 million that were earning interest at market rates, (d) had bought over $2 million of gold sold by the U.S. (e) was selling food grains to Vietnam and other countries, (f) and was operating it's own concessional assistance program of about $80 million per annum. There was also a great deal of concern expressed because $30 million of the proposed program was intended to dollar fund local currency expenditures at a time when the U.S. owned over $800 million of Indian excess currency. India was not willing to accept excess currency because they did not feel that it represented a real transfer of resources and because they were concerned about the inflationary impact of the use of such currency.

Nevertheless, in early August 1978 Congressional approval was obtained to fund the new India development program as proposed. On August 26, 1978, further agreement was reached with the GOI to proceed with the three projects mentioned above.

Scope

At the request of USAID/India, we have performed a special audit of their program operations and the Mission Operating Budget for Fiscal Year 1978. The purpose of our audit was to (a) determine if the program was well planned and in accordance with agency policy and regulations, (b) identify problem areas requiring management attention, and (c) review the efficiency and effectiveness of the Mission's administrative activities as well as its lifestyle.

Our examination was made in accordance with generally accepted auditing standards and included such tests and review of the records that we deemed necessary. We also held extensive discussions with appropriate AID and Embassy officials.

This report was reviewed by USAID/India officials, so that their comments could be given due consideration in finalizing the report.

SUMMARY

The most significant findings developed during the audit, and presented in detail in the following sections, are digested below:

- AID will fund $30 million of local currency construction costs of theGujarat Medium Irrigation Project with purchased rupees instead of using available excess currency. The design and implementation plan outlined for this project lacks specificity. The specific number of dams and canals to be built have not been determined or designed and all the locations where facilities are to be built have not been identified. Essentially, AID will rely on the World Bank for design, implementation and expenditure control for the project and will participate with the World Bank in monitoring implementation progress by making visits to project sites. We urged that USAID/I formalize these monitoring activities. (See pp. 5-8).

  Our review of Mission Operating expenses revealed no significant departures from required AID policy and procedures except in the area of review and control over non-expendable property. We found that control over vehicle management and procurement of carpeting, air conditioners and other furniture needed strengthening. We made three recommendations for corrective action. (See pp. 9-12).

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. PROGRAM OPERATIONS

Current USAID funding for program operations was approved August 2, 1978, at a level of $60 million. Three project agreements were signed on August 26, 1978, to provide $30 million for medium irrigation projects, $28 million for a malaria control program, and $2 million for science and technology research. All three of the projects are in very early stages of implementation and there have been no expenditures.

In general, we found that the program was being implemented in accordance with the relevant planning documents except for a slight delay in satisfying loan conditions precedent for the malaria control project. We also found that the medium irrigation project lacked a specific plan for implementation that identified what subprojects are to be undertaken or how actual construction progress is to be related to cost reimbursement by AID. In our opinion, this lack of specificity is sufficiently serious to warrant special monitoring effort and progress reporting.

1. Gujarat Medium Irrigation (Loan 386-T-223, Project 386-0464)

AID has provided $30 million for the Gujarat Medium Irrigation Project. The various condition precedents have been satisfied and the first disbursement of funds is expected to be in March or April 1979. Total project cost is estimated at $215 million of which AID will provide $30 million, the World Bank through the International Development Association (IDA) will provide $85 million, and the GOI will provide $100 million.

The Loan Agreement indicates the project "will consist of the construction of new, and modernization of existing, medium irrigation projects in the state of Gujarat" located in western India.

All of the AID $30 million will be for local rupee construction costs. The Rupees are to be procured from the Bank of India with U.S. dollar funds and are specifically not to be obtained from U.S.G. excess rupees of which we currently own over $800 million.

In our opinion, the design and implementation plan outlined in the Project Paper is unusual. AID requires that each project be definitively planned and that Mission monitorship and implementation should assure some equation between the amount paid and the percentage of project completion. For this project, however, the number of dams or canals to be built has not been determined, all the locations at which the facilities are to be built have not been identified and of course, the specific dams and canals have not been designed.

Disbursements by AID against the loan are to be based on AID funding 17 percent of the construction costs. The GOI will bill IDA. IDA will review and approve the billing and allocate the appropriate ratios of the billing to IDA and AID. AID will then directly pay the GOI. AID is not involved in the invoice review process. Neither the loan agreement nor the implementation letters define the type of documents IDA will require to support the billing. In addition, the GOI's billings are to be related to costs incurred. There is no requirement that the costs be related to the status of completion.

When discussing the unusual elements of the project design and disbursement procedures, USAID/India officials acknowledged that this is essentially a World Bank - GOI project. AID has had little input to the design of the project, AID has few monitoring responsibilities and AID has little or no responsibilities relative to fiscal review. When questioned relative to the adequacy of design and the Foreign Assistance Act checklist item 611(a)(1), (which requires that, prior to obligating in excess of $100,000, there will be (a) engineering, financial and other plans necessary to carryout the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance), USAID/India officials indicated they felt the design was adequate and that the checklist item had been complied with. A decision had been made by A.I.D. to rely on the bank for analysis and planning of the project. It was a policy decision taken by the Asia Bureau and approved by AA/Asia which resulted from a decision to renew financial assistance to India and a need to find a project for FY 1978 financing well in the advanced stages of design. USAID/India officials stated that World Bank experience in India has resulted in the determination that dams and canals similar to those they anticipate building on this project cost a specific amount of money. Relating those amounts to the number of dams and canals that may be built or repaired resulted in a total project cost estimate of $215 million. IDA has also related their past experiences in India to develop figures to estimate the cost to irrigate a hectare of land. However, the Loan Agreement does not specifically indicate (a) the number of hectares to be irrigated (b) the number of dams to be built or (c) the number or length of canals to be constructed.

The overall project will be implemented thru the design and construction of about 33 subprojects (13 new irrigation systems and 20 renovated or modernized existing irrigation systems). The GOI will design, review, approve and construct each sub-project. Only those sub-projects costing more than $8.1 million require World Bank Approval. AID has no responsibility for review or approval of sub-projects.

The loan agreement states that "Gujarat's long-range program for bringing cultivatable areas under irrigation will be carried out over a span of several years. A five-year (FY 78 to FY 83) time slice of this program will be co-financed by AID ($30 million) and IDA ($85 million) with a view to accelerating the rate of expansion of irrigated areas in Gujarat".

Clearly AID is in fact funding a time slice of irrigation development in Gujarat State but the project purposes of increasing food production and decreasing risks of drought are extremely broad and general. We believe that such broad project purposes coupled with the virtual absence of specific and definitive plans in the project design, the lack of a reasonable implementation plan, our virtual complete reliance on the World Bank for monitorship and payment reviews, and a payment system related to costs incurred without reference to project completion results in a degree of risk to AID that may be unacceptable. Certainly AID cannot abrogate its responsibility to insure wise and prudent use of funds.

The Project Paper specifically states that major responsibility for monitoring and reviewing project implementation rests with the World Bank as the major donor. However, the Project Paper does go on to say that A.I.D. will participate with IDA's technicians on periodic visits. We were informed that such participation has taken place. A USAID/India loan officer accompanied an IDA representative on a recent 2-day project review of one of the largest sub-projects and fully participated in the review. However, the results of this review were not documented in Mission files. In our draft report we recommended the establishment of specific A.I.D. monitoring and progress reporting procedures to assure that AID's interests were protected. In response to the draft report, the USAID/India Director stated that "to establish such procedures would be contrary to the accepted project design approved by the AA/Asia and the Deputy Administrator. Nonetheless, USAID recognizes that it should play a monitoring role to the extent possible to assure AID's interests are protected. Therefore, USAID personnel will continue to make periodic visits to project sites and will document the results of the visits through trip reports and/or memoranda." USAID/India also acknowledged there is a concern that there should be a relationship between reimbursements and project progress. They have discussed this with the IDA/New Delhi project manager and received confirmation from him that IDA will review project progress, and to the extent reimbursement exceeds the amount of construction completed, the share of IDA and AID for subsequent reimbursements will be reduced accordingly. We are not, therefore, making any recommendation. We will, however, follow-up in about three months time through our Area Audit Office in New Delhi to ascertain that monitoring is being documented in USAID/India files.

2. Malaria Control (Loan 386-U-224, Project 386-0455)

The Malaria project is based on a loan of $28 million for the procurement of U.S. insecticides. Discussion relative to chemical specifications of the insecticide continued through February 1979. Thus, there has been a modest delay in satisfying loan conditions precedent but there is no indication that overall implementation will be unduly delayed. AID's input to the ongoing GOI project is limited to the funding of the U.S. made insecticides. There are no additional staff requirements.

3. Science and Technology (Project 386-0465)

AID has provided a $2 million grant for the Science and Technology project. The conditions precedent for the project were satisfied in January 1979. The Grant will finance U.S. dollar costs of approved sub-projects that will increase Indo-U.S. collaboration in the application of science and technology to India's rural development effort. As of the date of our audit there have not been any sub-projects selected or approved for funding.

B. MISSION OPERATING EXPENSES

Our review included a selective examination of the $633,500 expended by USAID/India for operating expenses in FY 1978. In general we found no significant departures from required AID policy and procedures except in the area of review and control over procurement of non-expendable property. Our findings in this regard were reviewed in detail with the Mission Director who generally agreed with our findings and indicated appropriate corrective action would be taken.

Motor Vehicle Management

In 1976 the AID Affairs Office in India procured two Nova 4-door sedans (class III sedans). One Nova was assigned to the Director for exclusive use by USAID/India. The other vehicle is assigned to the Embassy motor pool (FAAS). The vehicles arrived in October 1976, have been used for 27 months, and appear to be in sound mechanical condition. The odometer reading for the Director's vehicle was 28,876 miles on January 22, 1979. Nevertheless, in March 1978 a Chevrolet Malibu costing $7,000 was purchased for the Director. The vehicle arrived in February 1979 and the Director's Nova was assigned to the Embassy motor pool.

We do not believe that purchase of the new vehicle was justified since the Nova assigned to the Director was adequate to satisfy his needs. In our judgement, the AID Affairs Office, which was the predecessor to USAID/India, should have waited and purchased the class III vehicle when they replaced the two vehicles under the normal replacement cycle.

USAID/India initially budgeted for 2 carryall vehicles at a cost of $15,000 in FY 1979 to be used for individual project support. In the revised budget, the number of carryalls was reduced to one. The Embassy motor pool currently has 7 carryalls in its fleet. Since there is no indication that the Embassy motor pool has a shortage of vehicles, has a requirement for additional vehicles, or has requested additional AID vehicles, we believe it is inappropriate for USAID/India to purchase this additional vehicle.

Recommendation No. 1

USAID/India should not place an order for an additional carryall unless the Embassy advises USAID/India that the current fleet of vehicles is insufficient to satisfy USAID program requirements.

The Embassy operates the motor pool and USAID/India is provided motor pool services under a FAAS agreement. State Cable 153608, dated June 16, 1978, indicates questions have been raised regarding replacement of motor vehicles supplied by AID to FAAS controlled motor pools. It is AID/W's position that replacement of common-use vehicles in a FAAS motor pool should follow the same procedures as replacement of any other common use item. This means that FAAS funds replacement and the various agencies reimburse FAAS through normal distribution of costs. Under a less desirable alternative, USAID's may fund replacement of common-use vehicles through allotments only if an offset is received for total price including transportation and other costs for replacement. Furthermore, title to the vehicles should be turned over to State regardless of funding. State Cable 153608 instructed USAID's to budget for replacement of common-use vehicles where assurances are provided that appropriate offsets would be received and transfer of title would be accepted.

The Embassy has neither requested that AID provide vehicles nor provided a FAAS offset for the AID provided vehicles. The title for the vehicles remains with AID.

USAID/India has requested AID/W to clarify the issues relative to AID providing vehicles for a FAAS operated motor pool. However, the issues between AID and the Embassy remain unresolved.

Recommendation No. 2

The Office of Management Operations (SER/MO), AID/W, should take immediate steps to resolve the policy question on procurement of vehicles for JAO/FAAS operations and provide definitive guidelines to affected Missions.

Carpets

USAID/India had a total of 77 residential carpets costing about $22,330 on hand as of January 24, 1979. Most residences have been issued more carpets than authorized under the USAID Manual Order which allows one carpet each for the dining and living rooms and one carpet for each occupied bedroom. We found that 53 carpets had been issued to the 10 residences when only 40 were authorized. Assuming that the maximum number of carpets (5 per residence) will be issued for 4 more residences, USAID/India would still have 17 carpets in stock. Nevertheless, in December 1978, USAID/India ordered 10 more carpets at a cost of $3,926. In our opinion, this order should not have been placed. Therefore, in our draft report we recommended that the order be cancelled. In response to the draft report, USAID, 'ia stated that the carpets are already under production and the order cannot be cancelled at this stage.

Air Conditioners

USAID/India has a total of 83 air conditioners on hand of which 8 are scheduled for disposal. An additional 25 units were ordered on December 21, 1978, at a total cost of $12,200. Assuming a need for 80 units (5 units per residence x 14 residences plus 10 reserve), the above order should have been issued for not more than 5 units.

Audio-Visual Equipment

Audio-visual equipment with an acquisition cost of $4,821 has been stored in the USAID warehouse for extensive periods of time. A majority of the items were turned into the warehouse by the Audio-Visual and Reproduction Services when it closed operations in December 1977. Many of the items have not been used by USAID/India since they were turned into the warehouse. Some items have not been used since 1976. We believe a survey of these items should be performed and a determination made as to what is no longer needed. Those items declared surplus, should be made available to other Missions, U.S. agencies or sold.

Chairs and Credenzas

USAID/India has a total of 228 office chairs including 71 swivel chairs and 157 straight back wood chairs. We feel there are many chairs excess to current and future needs. The Mission also has has 56 wood office credenzas with a related need for about 30.

Miscellaneous

In addition to the above, it appears that quantities of calculators, baseboard heaters, electric fans, transformers, card tables and sofas are also excess to needs.

In our judgement, this problem exists primarily because there has not been adequate review or supervision of the planning or procurement process utilized for managing the USAID's property inventory. We feel the Mission should strengthen procedures to provide for improved executive review and supervision of non-expendable property to preclude the purchase of property not absolutely needed.

Recommendation No. 3

The Director, USAID/India, should strengthen property management procedures to provide for adequate review and supervision of non-expendable property to preclude the purchase of property not absolutely needed.

EXHIBIT A

LIST OF RECOMMENDATIONS

REPORT RECIPIENTS

USAID/India	
Director	5
AID/W	
Auditor General	1
Auditor General, Office of Policy, Plans and Programs (AG/PPP)	1
Communications and Records Office (C&R) of the AG/EMS	12
Assistant Administrator/Asia (AA/ASIA)	1
Office of Bangladesh, India and Sri Lanka (ASIA/BIS)	1
Bureau for Asia/Executive Management Staff (ASIA/EMS)	1
Assistant Administrator/SER (AA/SER/SA)	1
Office of Management Operations (SER/MO)	1
Office of Development Information and Utilization (DS/DIU)	4
Deputy Administrator (DA/AID)	1
OTHER	
U.S. General Accounting Office (GAO/W)	1
Inspections and Investigations Staff (IIS/Karachi)	1
Area Auditor General/East Africa	1
Area Auditor General/West Africa	1
Area Auditor General/East Asia	1
Area Auditor General/Latin America	1
Area Auditor General/Egypt	1
Area Auditor General, AID/Washington	1