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UNITED STATES OF AMERICA

Auditor General

AUDIT REPORT

ON

REVIEW OF SELECTED

AGRICULTURAL PROJECTS

OF

USAID/NEPAL

Audit Report Number **5-367-81-12**

Issue Date **May 21, 1981**

Regional Inspector General for Audit - Karachi

Area Auditor General Near East
Agency for International Development

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AUDIT REPORT

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USAID/NEPAL

EXECUTIVE SUMMARY

This audit report covers our review of the Integrated Cereals and the Institute of Agriculture and Animal Sciences projects designed to assist His Majesty's Government (HMG) increase food production. Food availability in Nepal has been declining; between 1966 and 1973 production of food grains only increased at a rate of approximately 1.2 percent annually while the population growth rates were 2.0 to 2.4 percent.

This is our second review of the two projects since they were started in 1975. Our first audit was conducted in 1978 and revealed the projects had encountered problems in the area of host country staffing, design, planning and program results. Thus this follow-on audit was directed to reviewing progress in those areas plus identifying other problem areas requiring management attention with particular emphasis on construction and procurement activities.

Integrated Cereals Project

The objectives of this project are to improve and generate production technology and related cropping systems for the major food grains; wheat, rice and maize. Approximately $5 million were provided to fund a host country contract for technical assistance, participant training and commodity procurement. About 25 million Nepalese rupees were provided for construction and other local currency expenditures.

- The contractor has assisted HMG generate new cropping systems technologies and lay the foundation for a national research program. Implementation delays of up to one year in training, procurement, and construction have required the project to be extended. We found unutilized equipment as well as equipment and buildings needing repairs and made one recommendation addressing these problems. (See pp. 6 and 7.)

- One AID-financed participant completed his training but has not returned to Nepal. His U.S. visa has expired and he has started a PhD program without a new sponsor. Inasmuch as the project will have been concluded before the participant completes work on the PhD we recommended USAID require his return to Nepal or file a claim for the cost of the AID-financed training. (See pp. 8 - 10.)

- The project consultant has not used HMG/DOA or AID procurement procedures and the accountable property records were unsatisfactory. We made two recommendations for corrective action. (See pp. 11 and 12.)

Institute of Agriculture and Animal Sciences

The objective of the project is to provide quality training and academic programs for government officials, agricultural teachers, farmers and villagers at the community level. USAID has obligated $5.5 million through a direct AID contract with Midwest Universities Consortium for International Activities to provide technical assistance, participant training and commodity procurement. In addition, 49.3 million Nepalese rupees were provided for construction and other local currency costs.

- Progress in the academic programs is satisfactory but construction at the Rampur campus was approximately 18 months behind schedule. As a result, USAID cancelled Phase II of the construction program. We found that a 9 kilometer AID-financed connecting road for the campus was deteriorating and in need of immediate repairs. USAID has since advised us that repairs have been completed. We recommended that they ensure that current repairs and future maintenance plans are adequate. (See pp. 6 and 7.)

This report was reviewed with USAID/Nepal officials and their comments were considered in finalizing the report.

BACKGROUND

Agricultural production in Nepal has not achieved sufficient growth levels to meet the increased demand resulting from population growth rates. From 1966 to 1973, production of food grains increased at a rate of approximately 1.2 percent annually in comparison to annual population growth rates of 2.0 to 2.4 percent. As a result, since 1966 per capita food availability in Nepal has been declining. USAID has assisted HMG since 1975 to overcome this problem by providing substantial funding for two major projects designed to impact on production levels and on improving technical capabilities. Both projects are currently expected to be active through Fiscal Year 1984.

The purpose of the Integrated Cereals Project (ICP) is to upgrade the capability of the Ministry of Food, Agriculture and Irrigation (MFA) to improve production of major food grains. The other project is targeted on upgrading the capacity of the Institute of Agriculture and Animal Sciences (IAAS) to provide quality training and educational opportunities for HMG officials, farmers and villagers concerned with agricultural and animal production.

This is our second review of the two projects since they were started in 1975. Our first audit (Report No. 5-367-79-4, November 1978) revealed that the projects had encountered problems in the area of host country staffing, design, planning and program results. Thus this follow on audit was directed to reviewing progress in those areas plus identifying other problem areas requiring management attention with particular emphasis on construction and procurement activities.

We examined pertinent records and reports maintained by USAID/N and HMG. In addition, we visited the offices of the U.S. Contractors and performed field inspections at several projects sites. Our examination was carried out in accordance with generally accepted auditing standards and included such tests of the books and records considered necessary under the circumstances. Our review covered activities for the period from July 1, 1978 to December 31, 1980. During that period expenditures of the two projects totalled approximately $3.5 million plus about 29.6 million Nepalese rupees. A copy of our draft audit report was furnished to USAID/N officials for their review and their comments were considered in preparing this final report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A. IMPLEMENTATION PROGRESS

Integrated Cereals (ICP)
Project No. 367-0014

The ICP was initiated in June 1975 to improve the capability of the MFA through its Department of Agriculture (DOA). Project objectives were to improve and generate production technology and related cropping systems for the major food grains including wheat, rice and maize. About $5 million has been obligated by USAID since June 30, 1975 under a host country contract between HMG and a U.S. Contractor, the International Agricultural Development Service (IADS). The funds provided are for technical assistance, participant training and commodity procurement costs. In addition, about 25 million Nepalese rupees generated from U.S.-owned P.L. 480 Indian Rupees were provided for: (a) constructing research stations at Bhairawa, Rampur and Parwanipur, including hill station storage buildings, (b) procuring Indian equipment, materials and participant training, and (c) providing local support costs of the IADS staff.

The project has successfully reached some of it's objectives. Project personnel believe that significant work has been accomplished in helping HMG generate new cropping systems technologies. At five representative sites in the country, the project has developed packages of technology considered capable of significantly increasing production of the major food grains, under typical farm conditions. There has also been progress in demonstrating their potential to the participating farmers.

In addition, the project has established a foundation for a national cropping systems research program. For example, maize which produces about five tons per hectare and takes 180 days to mature, will no longer be planted because farmers now understand they can obtain a six ton yield from a combination of 100 day traditional maize and 110 day rice. The project has also distributed over 41,000 mini-kits to help farmers in the production of improved varities of maize, wheat and rice. As a result of the mini-kit program, farmers have also provided useful feedback to scientists working in HMG's commodity improvement program.

At the time of our audit the project was experiencing implementation delays of about one year which would necessitate extension of the project. USAID has prepared an amendment to the project paper requesting a $2.9 million three-year project extension with a new completion date of September 30, 1984. The request for project extension was made due to training, procurement, and construction delays. USAID also indicates the longer extension will permit them to take advantage of the research results achieved and allow them to deliver the technologies to farmers in the succeeding project stage.

Institute of Agriculture and Animal Sciences (IAAS)
Project No. 367-0102

The second project funded by USAID provides support to IAAS located at Rampur. The purpose of the project is to improve IAAS capability to provide quality training and academic programs for government officials, agricultural teachers, farmers and villagers at the community level. The project is under the general policy guidance of the Ministry of Education (MOE) through the Tribhuvan University and technical assistance is being provided under contract with the Midwest Universities Consortium for International Activities (MUCIA).

Since inception, in 1975, USAID has obligated $5.5 million under a direct AID Contract with MUCIA, for technical assistance, participant training and commodity procurement. In addition, 49.3 Nepalese rupees were provided for: (a) remodeling the existing IAAS campus buildings and construction of additional facilities at Rampur; (b) participant training; (c) equipment and material procurement; and (d) for local support costs of the MUCIA contract team.

The Mission and IAAS representatives believe progress in the academic programs is satisfactory. During 1980 the first group of 80 students graduated with diplomas in agricultural subjects and those students are now employed by the Department of Agriculture and other agencies involved in agricultural development in Nepal. Overall, there was a total enrollment of 434 students at the IAAS Rampur campus which compares favorably with the end-of-project target of 700 full-time students. In addition, two IAAS branch campus locations were established at Paklihawa and Lamjung and have 530 students enrolled. The IAAS professional staff has also increased to a total of 51; a 65 percent increase over the number of professional employees at the start of the project.

Project training activities are also progressing. Thus far, AID has financed 48 long term participant trainees under the project, and training has been completed by 22 students who earned Master of Sciences (M.S.) degrees and 4 students in the area of educational administration. Fifteen other M.S. degree candidates, six PhD's and one educational administrator are still in training.

Construction progress, however, is not proceeding as planned and remains well behind schedule. Completion of the IAAS campus buildings at Rampur was delayed at the outset by approximately 18 months and is not expected to be completed prior to mid-1982. During the first two years of the project there were shortages of basic materials, architectural designs were questioned, construction supervision was poor, and the Ministry of Finance (MOF) was slow in releasing funds. Many of these construction problems have been corrected, but the construction program is still behind schedule and Phase II has been cancelled because of inadequate funding resulting in part from cost escalations.

B. USAID MONITORING OF CONSTRUCTION ACTIVITIES

At the time of our audit, USAID monitoring of ICP construction activities was inadequate. Based on our findings the USAID has since indicated extensive corrective action has been taken.

The Department of Agriculture (DOA) issued 18 host country rupee construction contracts under the ICP. Those contracts, valued at $548,500, were executed without prior USAID review or approval as required by AID Handbook No. 11. We were also informed by USAID representatives that plans, specifications and tenders were not provided prior to issuance of the contracts. Instead, the DOA employed a local engineer to be responsible for reviewing and approving the contracts. USAID also provided fund advances for the contracts in spite of the fact that they did not have contract copies or make a prior review. At the time of our audit, USAID was accepting ICP construction expenditure statements from the DOA and applying expenditures against advances without verifying their reasonableness.

In response to our draft report, USAID officials advised that "AID Mission engineers conduct regular inspections of the construction under ICP and IAAS." They went on to state that "while we recognize that confirmation of reasonableness of expenditure without the contract document at hand makes that process more difficult, the AID Mission does in fact confirm such costs and records such reviews."

The Mission also reported they already issued an order specifically detailing monitoring responsibilities including assignment of detailed tasks to each office, restatement of the requirement that copies of construction contracts be provided to the USAID, and requiring the relevant USAID office to review the costs for reasonableness at the outset and at the time of each payment. In addition, 15 contracts were obtained by the USAID covering all the currently active construction activities. USAID also requested HMG to provide copies of all construction contracts and amendments that will be funded under the ICP. In view of USAID's actions, we have deleted the two recommendations included in our draft audit report.

C. PROVISIONS FOR MAINTENANCE AND REPAIR

Our review disclosed that neither the ICP or the IAAS projects have adequate programs for maintenance and repair of AID-financed project activities:

(a) The IAAS project financed a 9 km. road connecting the IAAS and ICP Rampur project sites with both the East-West highway in Bharatpur and the airport. The road was constructed by the National Construction Company of Nepal (NCCN) for the rupee equivalent of $294,118. It was completed during May 1979, and by agreement with NCCN was maintained until May 1980. IAAS accepted the road from NCCN as complete but has held up final payment because of the questionable quality of construction.

The Dean of IAAS informed us that since May 1980 the road has not been maintained or repaired because of the inability of project officials to acquire the services of a contractor, and the lack of assistance from the local government or HMG's Department of Roads.

Our inspection of the road disclosed many sections containing potholes and deep ruts. The Dean was of the opinion that another reason for the deterioration of the road was its use by heavy trucks, buses and farm equipment. USAID engineers who accompanied us stated that if repairs to the road were not made soon the road would become impassable within one year. (In answer to our draft report USAID has advised that all necessary road repairs have been made since the completion of our audit.)

(b) The ICP Rampur Maize Research Station was damaged by hail in January 1980 causing large holes in the roofing of the seed storage and threshing building. The damages occurred about a year before acceptance of the building in December 1980 but the contractor failed to repair them and instead, invoked the force majeure clause. We were informed by officials of the research station that it is their intention to repair the roof. However, over a year has passed and no corrective action has

been taken. The cost of repairs is relatively minor (approximately U.S. $1,000) and should be completed prior to the start of the monsoon season in June, 1981 so more extensive damage does not occur including damage to the mini-kits stored in the building.

(c) At the ICP Bhariawa research station we found 12 unused pieces of AID-financed equipment and materials valued at $28,351 that were not being utilized. Some of the items were still packed in their original containers or were not yet set up or needed repairs. Many of the commodities had been in country for several years but not unpacked or repaired. It was apparent from the condition of the items that a minimum of attention had been given them by the store-keeper. During our inspection of the other two research stations and at the IADS warehouse we found similar conditions existed. We realise that some of this equipment is only used on a seasonable basis but there is a need to determine the future utility of the equipment for project purposes.

Recommendation No. 1

The Director, USAID/N should ensure that repairs to the 9 km connecting road are adequate and that adequate provisions are made by the HMG for future repair and maintenance needs.

Recommendation No. 2

The Director, USAID/N should require the damaged building and equipment specified in this report to be repaired and require all project financed equipment to be placed in use or disposed of.

D. PARTICIPANT TRAINING

The IADS contract provided for international training at an estimated cost of U.S. $241,800 for 35 participants. The contractor has been unilaterally sending participants for training outside Nepal without notifying USAID/N in advance as required by the contract.

Participants were sent to Mexico, Thailand and the Philippines for short-term training from 1976 to 1979 without issuing non-obligating Project Implementation Orders/Participants (PIO/P's) for control purposes. The contract states that IADS shall prepare and submit such documentation plus biographical data to the Office of International Training (OIT/AID/W) on each participant scheduled to receive training either in the United States or a third country.

Since USAID/N was not notified in advance about the training, they did not conduct their usual monitoring of participants departure and return. PIO/P's and other training documents were not cleared by USAID/N or the host government, official arrival messages were not sent to the countries of training, and the U.S. Embassy in Nepal did not obtain the participants' security clearances. The USAID has since taken corrective action therefore a recommendation is not necessary.

Successive Degree Training Programs

We found that one participant financed from ICP funds did not return to Nepal from the United States upon graduation from the University of Illinois. The participant was selected as a candidate for an M.S. degree in Agronomy with a project objective of having him trained as a soybean extension specialist. An estimated $19,000 was provided in 1977 for international travel, training, programming fees and maintenance allowances. Upon graduation in September 1979, the participant was accepted as a PhD candidate and was awarded an assistantship with an AID-financed project at the University of Hawaii (U.O.H.) that is directed to providing research and training services to programs and institutes in less developed countries.

In November, 1980 the U.O.H. requested OIT to assist them in getting the participant back in visa status because his visa expired upon completion of his IADS program in August 1979. U.O.H. said that lack of a visa caused an undue personal hardship on the participant because his family could not join him in Hawaii. The U.O.H. letter further indicated that the participant was awarded an assistantship with the AID-supported project, and in return for this financial support,

he works 20-40 hours per week on research designed to achieve project objectives. It was stated his work includes some training in Legume technology that could be used on Legume projects in Nepal at some future date.

After reviewing the case, OIT advised USAID/N that the participant arranged for his PhD training by himself and that IADS responsibility for him could not be transferred to U.O.H. because he entered the U.S. under A.I.D. sponsorship. IADS declined to extend the visa and notified the participant that his studies at U.O.H. are not part of his approved fellowship program and that they would not be responsible for any further costs. OIT then advised USAID/N that the participant was considered a non-returnee and subject to deportation if his visa status is not regularized. USAID/N was requested to review the case and, if they approved the continuation for PhD training, it would have to be justified under AID criteria for permitting the earning of back-to-back degrees. Successive degree training often keeps participants away from home for many continuous years and is a practice not encouraged under AID policy.

On January 9, 1981 USAID/N advised OIT that they did not approve the participant continuing the PhD program because the objective of the PIO/P project document was to obtain an M.S. not PhD level training. USAID/N records show that in December, 1980 HMG authorized an extension of the participants' PhD training for one year that would appear to expire in December, 1981. However, we consider that unilateral action improper since the participant was on his own without a sponsor. We believe the participant's expertise in extension work is required for the ICP. If the project does not obtain the use of his services, two years of expensive M.S. degree training would be lost to the project, plus the time and cost of training a new participant.

In our draft audit report we recommended that the participant be returned to Nepal, through deportation proceedings if necessary, and that a claim be filed against HMG for the cost of training if the participant did not return to Nepal. In response to our draft report, USAID stated that the participant will ultimately return to Nepal to work on the ICP or in another area suitable to his training. They felt that if he returns later, both the participant and Nepal will have gained from the PhD training. USAID and HMG also believe that the additional training will enhance his contribution to ICP. Thus, USAID recommended that the participants' PhD program not be stopped but, if he does not return to Nepal after completion of his training, refund action against HMG should then be considered.

According to IADS, the PhD program will take several years to complete at the current rate of training and ICP will no longer exist when the participant completes the training. Even then, there is no real assurance that he will return to Nepal. The participant's visa had already expired when he unilaterally transferred to a new training program without a sponsor. At the moment, it appears that he is an illegal immigrant and prompt action should be taken to clarify his status.

Recommendation No. 3

The Director, USAID/N should in coordination with DS/OIT, (a) take prompt action to require (through deportation proceedings if necessary) the participant in question to be returned to Nepal to work on the ICP as planned, or (b) file a claim against HMG for the full cost of training if the participant does not return to work on the ICP.

E. PROCUREMENT

IADS has been procuring AID-funded commodities for the ICP without utilizing either host government or AID procurement procedures. With regard to procurement, the English translation of HMG's "Collection of Fiscal Rules and Regulations - FY 1978" states that only upon receipt of a written authorization from a designated responsible officer, government offices should procure goods not exceeding the following limitation:

(a) by direct purchase from the market when not exceeding Rs.1,000 per transaction;

(b) by quotation if between Rs.1,000 and Rs.5,000 per transaction; and

(c) by formal bids if above Rs.5,000 per transaction.

In the case of exceptional need, HMG can also procure goods exceeding the Rs.5,000 limitation per transaction by obtaining quotations instead of bids.

The IADS contract with HMG does not clarify the responsibilities in regards to procurement practices. Section 3.07 (a) states, "IADS shall administer foreign and local procurement on behalf of HMG only as authorized by the Project Director". But Section 2.09 of Appendix A provides that IADS, together with the DOA, should be held responsible for the development of a system of centralized procurement of local supplies and appraisal of tenders for equipment procured.

As of January 1981, IADS made 39 local currency purchases for the research stations equivalent to U.S. $179,545. Our review of 5 of the local purchases valued at U.S. $57,278, disclosed the following:

(a) for three purchases, quotations were obtained from only one supplier;

(b) for one purchase, quotations were received from two suppliers; and

(c) for the other purchase, quotations were considered from four suppliers.

In no case was the contractor's procurement file documented as to why the suppliers were selected or why certain suppliers were not considered.

Recommendation No. 4

The Director, USAID/N should ensure that HMG/DOA requires IADS to follow procurement procedures that meet contractual requirements.

F. COMMODITY ACCOUNTABILITY

The ICP does not maintain adequate accountable property records for the receipt and use of AID-financed commodities. Both the agricultural research stations and the IADS contractor were in possession of equipment and materials that were : (a) not recorded in inventory records (b) not identified as AID-financed, and (c) not reported by IADS as procured and shipped to each station. For example, out of 102 commodity items costing $108,100 that were received by the Bhairawa and Parwanipur research stations, items valued at $98,000 were not recorded in the property records. Representatives of the stations informed us that the commodities were not recorded because supporting documentation was not received from DOA and physical inventories were not performed.

At the Rampur research station, the station keeper maintained receipt and issue reports for items recorded in the property control ledgers. However, property records for periods prior to January 1981 were not made available during our review. The records were in the custody of a former employee who was transferred to a different position with the DOA. We were informed by the USAID that this is normal HMG practice and the property records would be turned over to the new store-keeper as soon as a physical inventory has been performed. Accordingly, we did not verify the accuracy of Rampur's property control records.

We found similar conditions at IADS. Physical inventories were not taken and property records were incomplete. Their Khumaltar warehouse contained 16 items valued at U.S. $11,000 that had not been recorded on the contractor's property records. The contractor's representatives informed us that some spare parts had been in storage for 2 or 3 years and their value and part numbers were unknown.

USAID has since requested IADS to review the inventory control system and to arrange for an adequate inventory of all AID-financed commodities.

Recommendation No. 5

The Director, USAID/N should ensure that an adequate inventory of ICP commodities is taken and that adequate property records are established and maintained on a current basis.

G. PROJECT EVALUATION

The ICP project paper requires a routine annual evaluation to be performed jointly by HMG, IADS and USAID/N. We found that the last joint-annual-review was completed as of November 1979.

USAID representatives informed us that the November 1980 review was delayed and that a final review could be done prior to the Project Completion Date of September 30, 1981. However, since there is a request for an extension of the project through September 30, 1984, the Mission Evaluation Officer has now scheduled an interim review to be performed in September 1981.

EXHIBIT A

LIST OF RECOMMENDATIONS

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USAID/Nepal	
Director	5
AID/W	
Deputy Administrator (DA/AID)	1
Bureau For Asia	
Assistant Administrator (AA/ASIA)	5
Office of Pakistan, Nepal and Sri Lanka Affairs (ASIA/PNS)	1
Audit Liaison Officer	1
Bureau For Development Support	
Assistant Administrator (AA/DS)	1
Office of Development Information and Utilization (DS/DIU)	4
Office of International Training (DS/IT)	1
Bureau For Program and Policy Coordination	
Office of Evaluation (PPC/E)	1
Office of Legislative Affairs (AA/LEG)	1
Office of General Counsel (GC)	1
Office of Financial Management (FM/ASD)	1
IDCA Legislative and Public Affairs Office	1
Office of Inspector General:	
Inspector General (IG)	1
Assistant Inspector General for Investigations and Inspections (AIG/II)	1
Communications and Records Office (IG/EMS/C&R)	12
Policy, Plans and Programs (IG/PPP)	1
Regional Inspector General for Audit:	
RIG/A/W	1
RIG/A/Nairobi	1
RIG/A/Manila	1
RIG/A/Cairo	1
RIG/A/Panama	1
OTHER	
General Accounting Office (GAO/W)	1
New Delhi Residency	1