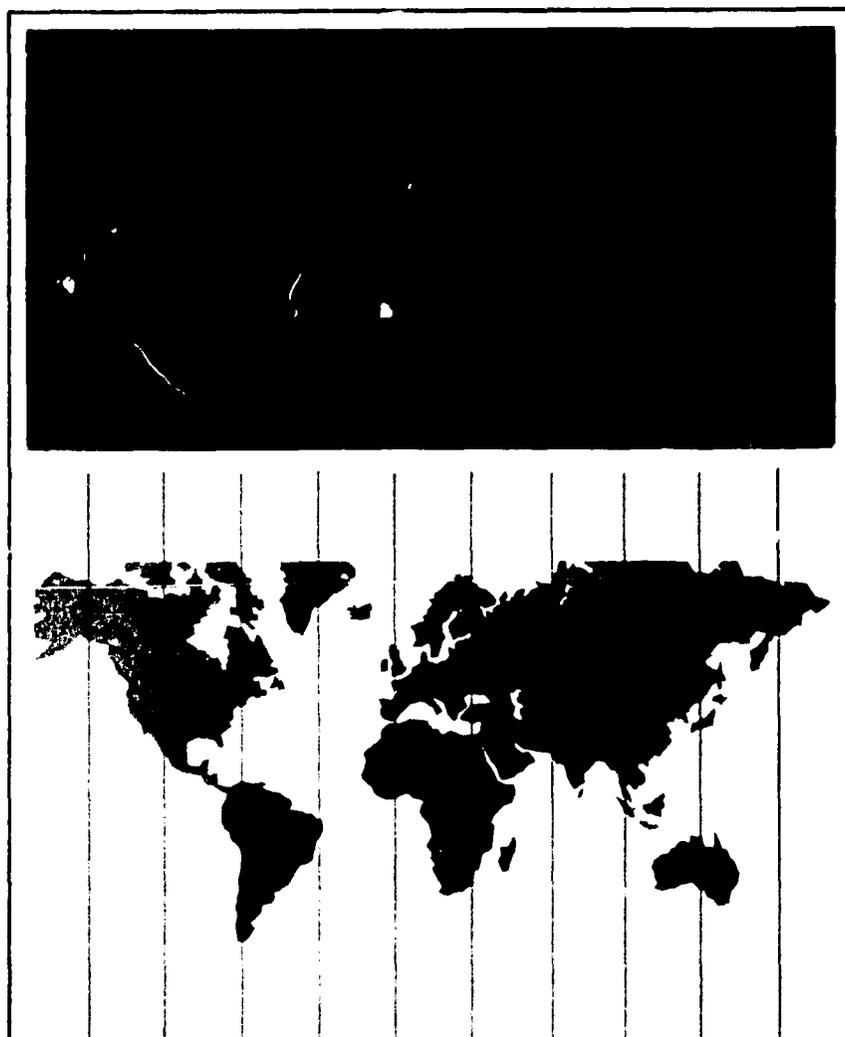


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
KARACHI

THE RICE RESEARCH PROJECT

LOAN NO. 383-T-016

USAID/SRI LANKA

AUDIT REPORT NO. 5-383-32-6

MAY 18, 1982

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AUDIT REPORT
ON
THE RICE RESEARCH PROJECT
LOAN NO. 383-T-016
USAID/SRI LANKA

EXECUTIVE SUMMARY

The Rice Research Project was designed to assist the Government of Sri Lanka (GSL) in increasing food self-sufficiency by expanding their technological base and improving rice land utilization. AID is funding \$3.8 million under Loan No. 383-T-016 to finance the cost of equipment, materials, training, and a contract for technical assistance with the International Rice Research Institute (IRRI).

This is our second review of the Rice Research Project since it began in 1977. Our audit covered the period from January 1979 through December 1981 and was performed to review project implementation, contractor performance and property accountability records and controls. The examination was conducted in accordance with generally accepted auditing standards and included such tests as we considered necessary under the circumstances.

Findings, Conclusions and Recommendations

Our examination disclosed that: (a) IRRI advisory services and reporting were unsatisfactory; (b) the GSL/DA had limited control over the receipt, distribution and utilization of AID-financed commodities; and (c) the USAID did not adequately monitor project implementation including the receipt, distribution and utilization of AID-financed commodities.

The IRRI contract team departed prior to the expiration of their contract due to the team leader's non-performance and his inability to function in coordination with GSL representatives. As a result, the contractor's performance was judged to be unsatisfactory and approximately \$225,000 of uncommitted loan fund should be deobligated. (See pp. 4 and 5.)

- **The GSL has not maintained adequate accountable property records and controls, and does not have equipment utilization data. In addition, USAID monitoring of AID-financed commodities has been inadequate. We made two recommendations for establishment of accountable property records and for USAID and the GSL to determine if all commodities are accounted for and being utilized. (See p. 7.)**

- **IRRI has not adequately accounted for utilization of a \$200,000 advance which is currently excessive to their needs. We recommended that the balance of the fund no longer needed be refunded. (See p. 8.)**

- **A training contract with an educational institution does not provide for provisional overhead rates nor does it describe the costs to be included in overhead. We recommended that overhead payments continue to be withheld until corrective action is taken to amend the contract. (See p. 9.)**

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

BACKGROUND

Sri Lanka is one of the poorest countries of the world and depends on an economy dominated by agricultural activities. About eighty percent of the population lives in rural areas and the most important crop and staple food is paddy (rice) which is grown on approximately 36 percent of the available cultivated land.

There is a great range of variation of paddy soils in Sri Lanka. Rice is normally grown on marginal lands, frequently in association with upland crops and under diverse physical conditions including poor rainfall and attacks of the brown planthopper. Domestic rice production does not meet requirements for home consumption thus, according to USAID, about eighteen percent of the rice consumed in Sri Lanka is imported.

The Rice Research Project was designed to provide assistance to the Government of Sri Lanka (GSL), through their Department of Agriculture (DA) to increase food self-sufficiency by expanding their technological base and improving rice land utilization. The project is funded by AID Loan No. 383-T-016 in the amount of \$3.8 million to help finance the cost of equipment, materials, training and technical assistance. The loan agreement was signed on January 25, 1977.

The project is being implemented through a \$3.125 million host country contract with the International Rice Research Institute (IRRI) of the Philippines dated May 23, 1977. IRRI's primary responsibility under the contract is to assist the DA in developing suitable technology to strengthen and implement a rice cropping systems research program in Sri Lanka. The initial contract period expired January 24, 1982 but an amendment is in process to extend the services for technical assistance and commodity procurement through June 30, 1982. Services for the training component of the project will be extended to June 30, 1984. Estimated budgetary costs of the contract are:

	<u>(\$ 000)</u>
Technical Assistance	\$.645
Third Country Training	1.082
Materials, Supplies, Equipment and Vehicles	1.110
Contractor Overhead	<u>.288</u>
Total	<u>\$3.125</u>

In addition to the above, the GSL also signed an agreement on October 15, 1980, with the International Institute of Education (IIE) for training long and short-term participants in the United States. Up to \$450,000 of loan funds are planned for this purpose. The \$225,000 balance of loan funds were uncommitted at the time of our audit.

This was our second audit of the project since it began in 1977 and our review was based on a request for audit by USAID officials. Our first audit (Report No. 5-383-78-8 dated March 26, 1979) was conducted during 1979 and contained one recommendation calling for re-evaluation of project objectives. The recommendation has been closed. This current review covered the period from January 1979 through December 1981 during which time a total of \$2.057 million of loan funds were disbursed.

The purpose of our audit of the Rice Research Project was to determine if project activities were being implemented effectively and in accordance with Agency policies and regulations and to identify problem areas requiring management attention. We examined records and reports maintained by USAID and the GSL and inspected two project sites. Our examination was carried out in accordance with generally accepted auditing standards and included such tests of records and other review procedures considered necessary under the circumstances. A draft copy of this report was furnished to USAID officials for review and their comments were considered in preparing this final report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A. STATUS OF PROJECT IMPLEMENTATION

1. Project Accomplishments

Overall, implementation of the Rice Research Project has been less than satisfactory. Throughout implementation of the project, progress has been limited by IRRI's inability to provide a Team Leader who could effectively organize the research component of the project and carryout required field trials activities. In addition, we found long delays in implementing the training component, a lack of adequate records to account for commodity procurement and a \$200,000 advance that still remains with IRRI but is excessive to their needs at the present time.

The First Team Leader arrived in Sri Lanka in 1977. He was expected to administer the project and organize the field trial unit. According to GSL evaluations his contribution to research was nil, he made very little contribution to the field trial activities, and in 1978 he was removed from the project. The Team Leader was replaced in July 1979, but again problems developed with this individual's ability to function adequately with GSL counterparts. GSL evaluations described him as a poor organizer whose technical input to the field trials, or the project as a whole, was very little. As a result, in March 1981 the Team Leader departed from Sri Lanka and since then IRRI assistance to the project has been limited to some visits of short-term consultants. In sum, for the past year AID-financed technical assistance provided to the project has been almost non-existent in the areas of rice research, cropping, field trials and resource surveys. This was a direct result of the Team Leader departing Sri Lanka prior to the contract expiration date. The GSL and USAID attribute the premature departure to non-performance, inability to function in coordination with GSL project management, and his untimely responses to GSL requests to resolve the problems in project implementation.

Even though some difficulties have been experienced in implementing this project, GSL statistics* do show a positive trend in improving rice production during the last few years as the following summary indicates:

<u>Year</u>	<u>Production (000 tons)</u>	<u>Tons/ha</u>
1970/71	1,373.8	2.40
1971/72	1,291.7	2.45

*Source: GSL Census and Statistics Department

<u>Year</u>	<u>Production (000 tons)</u>	<u>Tons/ha</u>
1972/73	1,291.7	2.33
1973/74	1,577.0	2.39
1974/75	1,135.9	2.30
1975/76	1,232.8	2.35
1976/77	1,651.5	2.55
1977/78	1,861.5	2.65
1978/79	1,886.9	2.92

A review of GSL reports and other information indicates project progress or problems in the areas of:

- (a) a cropping systems network was established in four areas of the country (in the dry, intermediate and mid-country wet zones);
- (b) studies were almost complete in developing better management practices and matching new high yielding varieties to the specific environments of the different rice growing areas;
- (c) field trial accomplishments were disappointing and did not reach project objectives; and
- (d) implementation of the participant training program was started after a long delay in selecting eligible candidates by the GSL. Of the 39 degree candidates selected, USAID reported that only four Master degree and one PhD level participant have completed their training. Two PhD level and 19 Masters candidates were in training and 13 additional trainees were scheduled for departure to the United States. In addition, 75 short-term participants trained by IRRI have returned to the project and 36 participants attended technical seminars.

2. Project Evaluation

From the above, it is clear that the Research Project has made some progress and has probably had some impact on increasing rice production in Sri Lanka, but in our opinion, a complete understanding of what has been accomplished with the expenditure of over \$2 million of project loan funds is not possible at this time. We found that progress reporting by IRRI was untimely and was so poorly prepared that both USAID and the GSL were not kept well informed. The 1979 joint GSL/IRRI/USAID project evaluation was also unclear in regard to project accomplishment.

Further, USAID did not have sufficient monitoring records readily available to substantiate the reported accomplishments of the GSL and IRRI. As a result, on August 31, 1981 USAID requested both the DA and IRRI to submit special reports detailing the direct benefits of the project to rice production in Sri Lanka. In their letters, USAID stated that they were finding it very difficult to assess the impact of the project on rice production in Sri Lanka because past annual reports had not really addressed the project's impact. These special reports should be of great assistance in carrying out the planned 1982 joint GSL/IRRI/USAID evaluation of project implementation and accomplishments. They should also be helpful in establishing final planning levels for the project and in determining whether excess IRRI contract funds and the \$225,000 of uncommitted loan funds can be deobligated.

In our draft report we recommended that the 1982 evaluation be performed prior to the June 30, 1982 Project Accomplishment Complete Date (PACD) for both technical assistance and commodity procurement. We also recommended that the evaluation provide sufficient data to assist the USAID in determining whether excess IRRI contract funds and the balance of uncommitted loan funds, should be deobligated. In response, we have received written assurance that USAID does not intend to extend the PACD and that they will pursue deobligation of any excess funds. Accordingly, no recommendation is made at this time.

B. ACCOUNTABLE PROPERTY RECORDS

The GSL does not have adequate records, controls or utilization data relating to AID financed equipment, vehicles and supplies valued at \$1,058,170. Our review of Research Project records disclosed that IRRI had purchased the equipment, vehicles and supplies and delivered the commodities to 15 different project research locations. The GSL informed us that IRRI did not provide adequate supporting documentation concerning the procurement or for the receipt of the commodities by project representatives. In addition, during April 1981, all receiving documents and inventory control records maintained by IRRI were removed from Sri Lanka to the Philippines headquarters office of IRRI.

Accordingly, the GSL was not able to establish complete and accurate property records. During November and December 1981, a DA Auditor and Administrative Assistant visited IRRI's headquarters in the Philippines to reconcile project records with IRRI's original procurement documents so that a complete record of commodities received could be prepared. Our review of the GSL's report on their visit to IRRI disclosed that there were allegations of discrepancies in the procurement of project commodities. For example, adequate shipping and receiving documentation was not available, shortages in supplies delivered to Sri Lanka were noted without evidence of insurance claims being filed by IRRI, files or documents were not made readily available for examination, and property records were not properly maintained by IRRI.

Our visits to two rice research stations indicated that the GSL was in process of establishing inventory records based on a physical inventory taken by project representatives and IRRI documentation obtained by the audit team. However, at the time of our audit the physical inventory was not yet complete and the available documentation from IRRI did not provide sufficient information to establish accurate or complete property records.

For instance, at one research station the inventory of AID financed commodities was not maintained by item, number of units or identified by serial number and the property was recorded in a stock ledger by the station storekeeper without reconciling to a physical inventory. This station has also been issuing equipment and supplies to satellite stations without retaining any evidence of receipt from the satellites. They were not maintaining a summary listing of the distribution or a list of the locations of the commodities issued. In addition, the balance of the inventory on-hand at the station did not show where the equipment

was stored. At two different locations we found a threshing machine and a distiller that were received during March and April 1980 but not recorded in the stock cards. The equipment was still in the original packing and has never been used.

In reply to our request for copies of the physical inventory listings taken at all the research stations we were informed by DA representatives that the listings either were not available or were not complete. Computer listings of project commodities were provided by IRRI to the GSL and were being used to locate and identify AID financed commodities. However, these listings were incomplete and considered useless by the project representatives for reconciling the commodities on-hand with the actual procurement made by IRRI.

USAID recognized the problem of poor property accountability quite some time back and did inform the GSL to take corrective action, but in our opinion, their monitoring thereafter was inadequate. As a result of the poor accountability practices, we were unable to determine if (a) all project financed commodities were accounted for, (b) whether any losses occurred, (c) whether there was any diversion of the equipment to other than project use or (d) if the equipment, vehicles and supplies were being promptly utilized for project purposes.

Recommendation No. 1

The Director, USAID/Sri Lanka, should ensure that the GSL establishes complete and accurate property records for AID financed commodities that (a) includes the results of a physical inventory, description of the property, location and utilization data and (b) reconciles with IRRI's project procurement and distribution records.

Recommendation No. 2

After completion of action in recommendation one above, the Director, USAID/Sri Lanka should, in coordination with the GSL, determine if all loan financed commodities are properly accounted for and placed in use.

The Director should also ensure that appropriate claims are filed for any missing, damaged or non-utilized commodities.

C. ADVANCE OF CONTRACT FUNDS

Upon the opening of AID Letter of Commitment No. 383-T-01 in September 1977, an advance of \$200,000 was provided to IRRI to establish a revolving fund to help finance dollar expenditures. Our review disclosed that IRRI has not yet taken action to liquidate the outstanding advance although their contract expired on January 24, 1982. The Letter of Commitment, item No. 4, requires that "The dollar revolving funds shall be liquidated by 'no pay vouchers' submitted by IRRI during the last two calendar quarters of the contract period". Given this requirement, IRRI should be required to promptly account for the revolving fund and return that portion of the fund no longer needed to finance contract activities.

Recommendation No. 3

The Director, USAID/Sri Lanka, in coordination with the GSL, should immediately obtain an accounting of IRRI's use of the \$200,000 revolving fund advance and obtain a refund of that portion of the advance no longer needed to finance contract activities.

D. REIMBURSEMENT OF CONTRACT ADMINISTRATIVE SERVICES

The GSL has reimbursed the Institute of International Education (IIE) for contract administrative fees but we could not establish how the fees were determined, whether they were negotiated or whether they were established based on prior audit. Since the rate appears to vary on a case by case basis, action should be taken to establish a provisional rate.

Our review disclosed that as of December 31, 1981, IIE was reimbursed \$47,116 for long-term participant training costs and \$9,843 for administrative fees or an overall average rate of 20.9 percent. However, because a provisional overhead rate has not yet been established, USAID has stopped further reimbursement to IIE. GSL project officials informed us that contract negotiation files were not maintained nor did they know how the rate of reimbursement was established.

The IIE Contract, Section 4.0, requires the GSL to reimburse IIE for administrative services based on direct labor and applicable overhead i.e., accounting, general administration, space and utilities. By amendment to the contract the allowability, allocability and reasonableness of overhead costs is required to be consistent with AID Handbook 11, Chapter 4.

In our opinion, neither the GSL or the contractor are complying with Chapter 4 which states "... overhead and/or general and administrative expense rates are usually provisional until established as final (by audit or otherwise) at completion of the contract". In addition, a provisional rate should be mutually agreed upon and should also be stated in the contract along with the basis for applying the rate.

Recommendation No. 4

The Director, USAID/Sri Lanka, in coordination with the GSL, should ensure that (a) reimbursement of IIE administrative fees will continue to be withheld until a provisional rate is established by negotiation or audit; and (b) that the IIE contract is amended to establish a provisional rate along with the applicable overhead costs subject to the rate.

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 1

The Director, USAID/Sri Lanka, should ensure that the GSL establishes complete and accurate property records for AID financed commodities that (a) includes the results of a physical inventory, description of the property, location and utilization data and (b) reconciles with IRRI's project procurement and distribution records.

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Recommendation No. 2

After completion of action in recommendation one above, the Director, USAID/Sri Lanka should, in coordination with the GSL, determine if all loan financed commodities are properly accounted for and placed in use. The Director should also ensure that appropriate claims are filed for any missing, damaged or non-utilized commodities.

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Recommendation No. 3

The Director, USAID/Sri Lanka, in coordination with the GSL, should immediately obtain an accounting of IRRI's use of the \$200,000 revolving fund advance and obtain a refund of that portion of the advance no longer needed to finance contract activities.

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Recommendation No. 4

The Director, USAID/Sri Lanka, in coordination with the GSL, should ensure that (a) reimbursement of IIE administrative fees will continue to be withheld until a provisional rate is established by negotiation or audit; and (b) that the IIE contract is amended to establish a provisional rate along with the applicable overhead costs subject to the rate.

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LIST OF REPORT RECIPIENTS

USAID/Sri Lanka

Director 5

AID/W

Deputy Administrator (DA/AID) 1

Bureau For Asia

Assistant Administrator (AA/ASIA) 2

Office of Pakistan, Nepal and Sri Lanka Affairs (ASIA/PNS) 1

Audit Liaison Officer 1

Bureau For Science and Technology

Office of Development Information and Utilization (S&T/DIU) 4

Bureau For Program and Policy Coordination

Office of Evaluation (PPC/E) 1

Bureau For Management

Office of Financial Management (M/FM/ASD) 1

Bureau For External Relations

Office of Legislative Affairs (EXRL/LEG) 1

Bureau For Program and Management Services

Office of Contract Management (SER/CM) 1

Office of General Counsel (GC) 1

Office of the Inspector General:

Inspector General (IG) 1

Communications and Records Office (IG/EMS/C&R) 12

Policy, Plans and Programs (IG/P²P) 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

Regional Inspector General for Investigations and Inspections
(RIG/II/Karachi) 1

New Delhi Residency 1