

PD-AAR-955

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D. C. 20523

41709

OFFICE OF THE AUDITOR GENERAL  
AREA AUDITOR GENERAL - LATIN AMERICA

AUDIT REPORT  
UNITED STATES A.I.D. MISSION TO BOLIVIA  
SUB-TROPICAL LANDS DEVELOPMENT  
LOAN 511-1-050

PERIOD COVERED. 11-1-75 THRU 12-31-77  
AUDIT REPORT No.: 1-511-78-15  
DATE REPORT ISSUED: APRIL 20, 1978.

## TABLE OF CONTENTS

	<u>PAGE No.</u>
I. BACKGROUND AND SCOPE	1
II. SUMMARY	3
III. FINDINGS AND RECOMMENDATIONS	5
PROJECT PROGRESS	5
ACCESS TRAILS	7
ACCOUNTING AND REPORTING	7
GOB CONTRIBUTIONS	8
INELIGIBLE COSTS	9
INFORMATION AND MARKING	10

## 1. BACKGROUND AND SCOPE

### BACKGROUND

THE ~~SUB-TROPICAL LANDS DEVELOPMENT~~ LOAN 511-T-050 WAS SIGNED BETWEEN AID AND THE GOVERNMENT OF BOLIVIA (GOB) ON ~~SEPTEMBER 19, 1974~~. THE LOAN IS FOR \$9.7 MILLION, AND AN ACCOMPANYING GRANT IS FOR \$150,000. THE OVERALL PROJECT OBJECTIVE IS TO ASSIST THE GOB IN THE COLONIZATION AND SETTLEMENT OF CERTAIN SUB-TROPICAL LANDS IN THE SAN JULIAN AND CHANEPIRAY AREAS NORTH OF THE CITY OF SANTA CRUZ, BOLIVIA.

THE PROJECT PURPOSES ARE TO INCREASE THE PRODUCTIVITY AND INCOMES OF 11,000 MIGRANT CAMPESINO FAMILIES WHO WILL EVENTUALLY BE LIVING IN THE TARGET AREA, TO EXPAND THE PRODUCTION OF FOOD CROPS, AND TO DEVELOP A PROCESS WITHIN THE GOB FOR REPLICATING THIS EFFORT IN OTHER AREAS OF THE BOLIVIAN LOWLANDS. TO ACHIEVE THESE PURPOSES THE AID LOAN AND GRANT WILL FINANCE THE FOLLOWING ACTIVITIES AT THE TARGET AREA:

IMPROVEMENT AND CONSTRUCTION OF TWO PENETRATION ROADS

CONSTRUCTION OF TWO AGRICULTURAL SERVICE CENTERS

DEVELOPMENT OF POTABLE WATER FACILITIES

DEVELOPMENT OF SMALL HEALTH POSTS AND THE EQUIPPING OF A MOBILE HEALTH UNIT

AN ORIENTATION PROGRAM FOR NEW SETTLERS

PROVISION OF ADMINISTRATIVE SUPPORT AND TECHNICAL ASSISTANCE

EXECUTION OF A LAND RESOURCE STUDY OF OTHER SITES IN THE AREA.

THE PROJECT EXECUTING AGENCY IS THE BOLIVIAN NATIONAL COLONIZATION INSTITUTE (INSTITUTE). OTHER BOLIVIAN PUBLIC AND PRIVATE ENTITIES WILL ALSO PARTICIPATE IN PROJECT EXECUTION.

FINANCING OF THE ENTIRE PROJECT CONSISTS OF THE FOLLOWING COMPONENTS.

<u>PROJECT FINANCING</u>	
<u>SOURCE</u>	<u>AMOUNT</u>
AID LOAN 050	\$9,700,000
AID GRANT	150,000
GOB CONTRIBUTION	5,104,000
COMMUNITY CONTRIBUTION	150,000
OTHER DONORS	200,000
TOTAL	<u>\$15,304,000</u>

THE GOB CONTRIBUTION WILL BE IN THE FORM OF LAND, NOW THE PATRIMONY OF THE STATE, TO BE TRANSFERRED TO THE INSTITUTE AND LATER TO INDIVIDUAL SETTLERS; OPERATING COSTS AND SOME SALARIES OF ENTITIES WORKING ON THE PROJECT; OPERATING COSTS OF THE INSTITUTE IN OPENING UP ACCESS TRAILS IN THE TARGET AREA; AND COSTS FOR LAND TITLING AND THE LAND RESOURCE STUDY. THE SALARY COSTS WILL BE FOR THOSE INDIVIDUALS ASSIGNED DIRECTLY TO THE PROJECT BY THE INSTITUTE, THE AGRICULTURAL EXTENSION SERVICE AND THE NATIONAL COMMUNITY DEVELOPMENT SERVICE.

THE USAID CONTROLLER'S RECORDS SHOW THE FOLLOWING FUNDING INFORMATION AS OF DECEMBER 31, 1977:

	<u>OBLIGATED</u>	<u>EXPENDED</u>	
	\$000		
<u>AID LOAN 050</u>			
ROADS AND TRAILS	\$7,838	\$3,173	
PRODUCTION SERVICES:			
AG. SERVICE CENTERS	490	9	
CREDIT	500	74	
SOCIAL SERVICES:			
POTABLE WATER	277	136	
HEALTH POSTS	25	25	
ORIENTATION	25	25	
PROJECT ADMINISTRATION:			
ADM. SUPPORT	40	-	
TECH. ASSISTANCE	120	2	
LAND TITLING	80	-	
PROJECT LOCATION:			
RESOURCE STUDY	250	120	
CONTINGENCIES	55	22	
	<u>\$9,700</u>	<u>\$3,586</u>	
PREVIOUSLY AUDITED		<u>93</u>	\$3,493
<u>AID GRANT 04,1</u>			
CONTRACT GOB/AID-111-93	<u>\$ 83</u>	\$ 69	
PREVIOUSLY AUDITED		<u>8</u>	<u>61</u>
TOTAL COVERED BY THIS AUDIT			<u>\$3,554</u>

THROUGHOUT THIS REPORT, LOCAL CURRENCY AMOUNTS ARE EXPRESSED IN UNITED STATES DOLLAR EQUIVALENTS AT THE RATE OF 20.38 BOLIVIAN PESOS TO THE DOLLAR.

PRIOR AUDIT REPORT No. 1-511-76-24, DATED JANUARY 30, 1976, COVERED THE PERIOD FROM PROJECT INCEPTION THROUGH OCTOBER 31, 1975. THAT REPORT CONTAINED ONE RECOMMENDATION WHICH WAS CLOSED BASED ON ACTIONS OF THE USAID AND THE INSTITUTE. HOWEVER, THOSE ACTIONS WERE NOT SUCCESSFUL IN ANSWERING THE INTENT OF THE RECOMMENDATION, THAT OF HIRING A PROJECT MANAGEMENT/EVALUATION ADVISOR.

### SCOPE

THIS WAS A REGULARLY-SCHEDULED INTERIM AUDIT OF THE PROJECT, AND COVERED THE PERIOD FROM NOVEMBER 1, 1975 THROUGH DECEMBER 31, 1977. THE AUDIT WAS PERFORMED IN ACCORDANCE WITH CURRENT AUDITING STANDARDS, GIVING DUE CONSIDERATION TO APPLICABLE AID LOAN REGULATIONS. OUR EXAMINATION WAS MADE ON A SELECTIVE BASIS AND INCLUDED SUCH TESTS AS WE CONSIDERED NECESSARY IN THE CIRCUMSTANCES.

WE VISITED THE OFFICES OF THE INSTITUTE IN LA PAZ, SANTA CRUZ AND SAN JULIAN. WE ALSO REVIEWED ACTIVITIES CARRIED OUT BY THE CONSTRUCTION CONTRACTOR AND BY THE CONTRACT RESETTLEMENT ADVISOR. THE AUDIT OBJECTIVE WAS TO DETERMINE PROJECT STATUS AND OVERALL ACCOMPLISHMENTS, AND TO SEE HOW SUCCESSFULLY THE PROJECT IS PROGRESSING TO DATE.

### II. SUMMARY

THE SUB-TROPICAL LANDS DEVELOPMENT PROJECT IS SUBSTANTIALLY BEHIND SCHEDULE, WITH ALL ACTIVITIES IN THEIR INITIAL TO MIDDLE STAGES OF IMPLEMENTATION. CONSEQUENTLY, IT IS TOO EARLY TO FULLY MEASURE PROGRESS IN ACCOMPLISHING THE PROJECT GOALS. WITH CONSTRUCTION OF THE ACCESS ROADS NOW PROCEEDING, PROJECT ACTIVITIES SHOULD ACCELERATE WITHIN THE NEXT FEW MONTHS.

DURING OUR EXAMINATION WE FOUND SEVERAL CONDITIONS WHICH WE ARE BRINGING TO THE USAID'S ATTENTION, AS SUMMARIZED BELOW:

WITH THE PROJECT SO FAR BEHIND, AND NEEDING CLOSE MONITORING TO PREVENT ADDITIONAL DELAYS, WE RECOMMEND THAT THE USAID AND THE INSTITUTE PERFORM AN IMMEDIATE PROJECT EVALUATION AND DESIGN A NEW TIME-PHASED IMPLEMENTATION PLAN FOR USE IN CONTROLLING AND MEASURING PROGRESS TO COMPLETION. // ✓

THERE WERE PROBLEMS WITH THE MAINTENANCE OF CONSTRUCTION EQUIPMENT AND WITH SUPPORT BEING PROVIDED TO THE PROJECT FIELD OFFICES. THESE PROBLEMS WERE REPORTEDLY RESOLVED WHEN WE REPORTED THEM TO THE USAID, SO WE ARE NOT MAKING A RECOMMENDATION AT THIS TIME.

THE INSTITUTE IS NOT RECORDING PROJECT EXPENDITURES IN THEIR RECORDS ON A CURRENT BASIS, NOR ARE THEY MAINTAINING THEIR RECORDS IN CONFORMANCE WITH THOSE OF THE USAID AND OF THE FINANCIAL PLAN OF THE LOAN AGREEMENT. WE RECOMMEND THAT THE USAID ENCOURAGE THE INSTITUTE TO KEEP ITS ACCOUNTING RECORDS AND RELATED AUDITS CURRENT AND TO CONFORM ITS RECORDS TO THE FINANCIAL PLAN ESTABLISHED IN THE LOAN AGREEMENT.

THE INSTITUTE'S RECORDS DO NOT PROPERLY INDICATE HOW THE GOB'S CONTRIBUTIONS TO THE PROJECT ARE SPENT ON PROJECT COMPONENTS. FURTHERMORE, WE FOUND THAT NUMEROUS SALARIES BEING CHARGED TO THE PROJECT ARE FOR EMPLOYEES WHO DO NOT ACTUALLY WORK ON THE PROJECT, THUS OVERSTATING THE AMOUNT OF THE GOB CONTRIBUTION TO THE PROGRAM. WE RECOMMEND THAT THE USAID REQUIRE THE INSTITUTE TO ESTABLISH PROPER RECORDS TO ACCOUNT FOR THE GOB'S CONTRIBUTIONS, AND ASSURE THAT ONLY PROJECT-RELATED SALARIES AND OTHER COSTS ARE CHARGED AGAINST GOB RESOURCES PROVIDED TO THE PROJECT.

BOLIVIAN CONSULAR FEES OF \$2,469 WERE IMPROPERLY PAID WITH LOAN FUNDS WHEN TWO TRACTORS AND TWO MOTOR GRADERS WERE PURCHASED FOR THE PROJECT. WE RECOMMEND THAT THE USAID REQUEST THE GOB TO REFUND THE AMOUNT TO AID.

THE INSTITUTE HAS NOT MADE THE NECESSARY ARRANGEMENTS TO POST AID SYMBOLS AND EMBLEMS AT THE PROJECT SITE AND ON PROJECT EQUIPMENT. WE RECOMMEND THAT THE USAID REQUIRE COMPLIANCE WITH THIS PROVISION OF THE LOAN AGREEMENT.

AT AN EXIT CONFERENCE ON FEBRUARY 9, 1978, USAID OFFICIALS EXPRESSED GENERAL AGREEMENT WITH THE FINDINGS AND RECOMMENDATIONS IN OUR DRAFT REPORT. CONSIDERATION WAS GIVEN TO THE USAID'S POSITION AND COMMENTS IN THE PREPARATION OF THIS FINAL REPORT.

### III. FINDINGS AND RECOMMENDATIONS

#### PROJECT PROGRESS

ORIGINAL PLANS WERE TO COMPLETE THE SUB-TROPICAL LANDS DEVELOPMENT PROJECT IN 48 MONTHS. BUT AFTER 39 MONTHS OF ACTIVITY, THE PROJECT IS SUBSTANTIALLY BEHIND ORIGINAL PROJECTIONS. ALL ACTIVITIES ARE STILL IN THEIR INITIAL TO MIDDLE STAGES OF IMPLEMENTATION. AS A RESULT, IT IS TOO EARLY TO FULLY MEASURE THE DEGREE OF PROGRESS IN ACCOMPLISHING ALL THE PURPOSES OF THE PROJECT.

THE PROJECT WAS FIRST DELAYED BECAUSE OF FAULTY ENGINEERING SURVEY AND DESIGN WORK ON THE ACCESS ROADS BY THE INSTITUTE. WITHOUT SUCH ROADS INTO THE TARGET AREA, OTHER PROJECT ACTIVITIES COULD NOT PROCEED. A SECOND ROAD SURVEY HAD TO BE PERFORMED AND THEN DESIGN WORK COMPLETED BEFORE CONSTRUCTION CONTRACTS COULD BE LET. THE CONTRACTS WERE SIGNED WITH D.E.V. CALABI, A LOCAL CONSTRUCTION FIRM, ON JUNE 29, AND OCTOBER 21, 1977. ROAD CONSTRUCTION WORK AT CHANE-PIRAY BEGAN ON AUGUST 1, 1977, AND THAT AT SAN JULIAN BEGAN ON DECEMBER 1, 1977. CURRENT PLANS ARE FOR ALL ROADS TO BE COMPLETED BY JANUARY AND MAY 1979, RESPECTIVELY. OF COURSE, THIS WILL REQUIRE AN EXTENSION OF THE LOAN'S TERMINAL DISBURSEMENT DATE TO SOME TIME IN THE FUTURE.

THE OTHER MAJOR ACTIVITIES OF THE PROJECT ARE ALSO BEHIND SCHEDULE AT THE PRESENT TIME, WITH EACH ACTIVITY ANYWHERE FROM 2 TO 50 PERCENT COMPLETE, AS MEASURED BY THE USAID STAFF. HOWEVER, WITH CONSTRUCTION OF THE ACCESS ROADS NOW MOVING FORWARD, THESE ACTIVITIES SHOULD ACCELERATE WITHIN THE NEXT FEW MONTHS.

IN OUR OPINION, AN IMPORTANT FACTOR IN CONTINUED PROJECT DELAYS HAS BEEN THE LACK OF ADMINISTRATIVE SUPPORT AND TECHNICAL ASSISTANCE PROVIDED TO THE INSTITUTE. THE LOAN PROVIDED \$200,000 OF FUNDS TO CONTRACT FOR A PROJECT MANAGEMENT/EVALUATION ADVISOR, WHO WAS TO DEVELOP THE INSTITUTE'S ABILITIES TO MANAGE AND EVALUATE DATA FOR DECISIONS IN IMPLEMENTING THE PROJECT. HOWEVER, AFTER SEVERAL UNSUCCESSFUL EFFORTS AT LOCATING AND HIRING THIS ADVISOR THE POSITION WAS ABOLISHED IN OCTOBER 1977. IN ADDITION TO PROBLEMS IN FINDING A QUALIFIED INDIVIDUAL THERE WAS RESISTANCE ON THE PART OF THE GOB TO USE LOAN FUNDS TO HIRE A TECHNICIAN WHO, BY GOB STANDARDS, DEMANDED A RELATIVELY HIGH SALARY. IN LIEU THEREOF, THE INSTITUTE BEGAN INCREASING ITS PROJECT COORDINATOR'S STAFF TO PROVIDE THE SERVICES ORIGINALLY ENVISIONED FOR THE CONTRACT ADVISOR. THE USAID BELIEVES THE INCREASED INSTITUTE STAFF WILL SUFFICE TO PROVIDE THE NEEDED ADMINISTRATIVE AND TECHNICAL SUPPORT TO THE PROJECT.

MEANWHILE, IN SEPTEMBER 1975, THE GOB CONTRACTED FOR A TECHNICIAN TO FILL THE JOB OF PROJECT SUPERVISOR, AS PLANNED FOR THE PROJECT. UNDER THE GRANT FUNDED GOB/AID CONTRACT 511-93, MR.

HARRY PEACOCK, WHOSE SPECIALIZED FIELD IS RESETTLEMENT ADVISOR, IS PROVIDING BASIC SUPPORT TO THE INSTITUTE IN THE AREAS OF MANAGEMENT, INFORMATION, LIAISON WITH THE USAID, AND IMPLEMENTATION OF THE LOAN PROJECT IN THE FIELD. AGAIN, THE USAID BELIEVES THAT THIS TECHNICIAN CAN PROVIDE THE ESSENTIAL SERVICES TO THE INSTITUTE, TO INCLUDE SUCH TECHNICAL COMPONENTS AS AGRICULTURAL CREDIT, SOCIAL SERVICES, HEALTH FACILITIES, AGRICULTURAL SERVICE CENTERS, ETC. WE DID FIND THAT MR. PEACOCK HAS PROVIDED SATISFACTORY SERVICES IN THE AREA OF RESETTLEMENT ADVISOR AND GENERAL FIELD MANAGEMENT OF THE PROJECT. FURTHERMORE THE USAID RATES HIS SERVICES AS OUTSTANDING.

THE INSTITUTE, IN COMPLIANCE WITH THE LOAN AGREEMENT, HAD PREPARED A TIME-PHASED IMPLEMENTATION PLAN FOR CARRYING OUT AND MONITORING THE PROJECT, AND AN EVALUATION PLAN FOR MEASURING PROGRESS TOWARD PROJECT GOALS AND TARGETS. BUT THOSE PLANS HAVE NEVER BEEN USED, AND, DUE TO THE CHANGED NATURE OF THE PROJECT, ARE NOW GENERALLY OUT OF DATE. AT THE SAME TIME, AN ANNUAL EVALUATION OF THE PROJECT WAS TO BE PERFORMED BY THE USAID AND THE INSTITUTE, WITH A REVIEW OF ALL PROJECT ACTIVITIES, PROGRESS TO DATE, PROBLEMS ENCOUNTERED, ETC. BUT SUCH AN EVALUATION HAS NEVER BEEN PERFORMED, NOR HAS AN EVALUATION REPORT BEEN SUBMITTED TO AID/W IN THE 39 MONTHS OF PROJECT LIFE.

THE USAID'S ROLE IS TO MONITOR THE PROJECT TO ENSURE THE TIMELY DELIVERY AND EFFECTIVE USE OF AID-FINANCED INPUTS, AND TO ASSURE THE ADEQUACY OF PROJECT PROGRESS AND RESULTS. WITH THE PROJECT IN ITS INTERMEDIATE STAGES OF IMPLEMENTATION, WE BELIEVE IT IMPORTANT THAT THE USAID CONTINUE CLOSE MONITORING TO PREVENT ADDITIONAL DELAYS IN PROJECT IMPLEMENTATION. BECAUSE THE ORIGINAL COST ESTIMATES WERE TOO LOW, ALONG WITH CONTINUED PROJECT DELAYS, AN ADDITIONAL \$2.6 MILLION WILL NOW BE REQUIRED TO COMPLETE ALL PROJECT COMPONENTS. THE GOB HAS COMMITTED ITSELF TO PROVIDE THIS ADDITIONAL AMOUNT WHEN NEEDED. AND IT IS HOPED THAT ADDITIONAL DELAYS DO NOT OCCUR, REQUIRING ADDED AMOUNTS OF FUNDS TO COMPLETE THE JOB

WE WERE INFORMED THAT THE USAID HAS AN EVALUATION PLANNED FOR JUNE 1978. HOWEVER, WE BELIEVE THAT A THOROUGH EVALUATION OF THE PROJECT SHOULD BE PERFORMED IMMEDIATELY TO DETERMINE THE EXACT STATUS OF THE PROJECT, THE QUALITY OF TECHNICAL ASSISTANCE BEING PROVIDED TO ASSIST THE INSTITUTE IMPLEMENT THE PROJECT, OUTSTANDING PROBLEMS AFFECTING THE PROJECT, AND THE ESTIMATED DATES OF PROJECT COMPLETION. AT THE SAME TIME A NEW TIME-PHASED IMPLEMENTATION PLAN SHOULD BE DESIGNED IN ORDER TO MEASURE PROJECT PROGRESS TO COMPLETION.

## RECOMMENDATION No. 1

THE USAID, TOGETHER WITH THE INSTITUTE, SHOULD PERFORM AN IMMEDIATE EVALUATION TO DETERMINE THE EXACT STATUS OF THE PROJECT, AND ALSO DESIGN A NEW TIME-PHASED IMPLEMENTATION PLAN FOR USE IN MEASURING PROJECT PROGRESS TO COMPLETION.

### ACCESS TRAILS

WE FOUND THAT THE CONSTRUCTION OF ACCESS TRAILS IN THE SAN JULIAN AREA IS QUITE SLOW DUE TO A LACK OF ADEQUATE CONSTRUCTION EQUIPMENT. THREE OF THE FIVE LOAN-FINANCED TRACTORS IMPORTED UNDER AID'S EXCESS PROPERTY PROGRAM REMAIN INOPERABLE FOR LONG PERIOD OF TIME DUE TO A LACK OF SPARE PARTS AND MAINTENANCE.

THE INSTITUTE'S FIELD OFFICE AT SAN JULIAN IS NOT BEING PROVIDED WITH SUFFICIENT FUNDS AND TECHNICAL SUPPORT TO COVER THE MOST URGENT REQUIREMENTS FOR SPARE PARTS AND MAINTENANCE OF THE EQUIPMENT. THE CAMP MANAGER HAS REPEATEDLY REQUESTED THE NEEDED FUNDS AND SUPPORT FROM THE INSTITUTE, BUT TO NO AVAIL.

SUBSEQUENT TO THE COMPLETION OF OUR AUDIT, THE THREE TRACTORS WERE PUT IN THE REPAIR SHOP TO BE COMPLETELY OVERHAULED. IN ADDITION, THE FIELD OFFICES ARE NOW BEING PROVIDED WITH SUFFICIENT FUNDS AND SUPPORT TO COVER THEIR REQUIREMENTS. CONSEQUENTLY, WE ARE NOT MAKING A RECOMMENDATION ON THIS CONDITION.

### ACCOUNTING AND REPORTING

THE INSTITUTE IS NOT RECORDING PROJECT EXPENDITURES ON A CURRENT BASIS, WITH THE RESULT THAT FINANCIAL STATEMENTS ARE NEITHER PREPARED NOR AUDITED IN A TIMELY MANNER. FOR EXAMPLE, 1977 TRANSACTIONS HAD NOT BEEN RECORDED IN THE RECORDS AT THE TIME WE VISITED THE INSTITUTE'S OFFICES IN NOVEMBER 1977. IN ADDITION, THE 1976 FINANCIAL STATEMENTS HAD JUST BEEN PREPARED IN NOVEMBER 1977, AND NO ARRANGEMENTS HAD BEEN MADE FOR AN INDEPENDENT AUDIT OF THOSE STATEMENTS. TO DATE, ONLY THE 1975 FINANCIAL STATEMENTS HAVE BEEN AUDITED. WE SUBSEQUENTLY LEARNED THAT THE INSTITUTE HAS NOW ARRANGED FOR AN AUDIT OF THE 1976 STATEMENTS.

THIS CONDITION EVIDENTLY RESULTED FROM THE ASSIGNMENT OF THE INSTITUTE'S ACCOUNTANT TO ACT AS ADMINISTRATIVE OFFICER, WITH THE EFFECT THAT HE DID NOT HAVE TIME TO DEVOTE TO THE FINANCIAL FUNCTION. WE BELIEVE THE INSTITUTE SHOULD HAVE THE SERVICES OF A FULL-TIME ACCOUNTANT TO HANDLE ALL RECORD KEEPING FOR THE PROJECT.

WE ALSO FOUND THAT THE INSTITUTE IS NOT KEEPING ITS ACCOUNTING RECORDS IN CONFORMANCE WITH THOSE OF THE USAID AND OF THE FINANCIAL PLAN ESTABLISHED IN ANNEX I OF THE LOAN AGREEMENT. THE INSTITUTE CLASSIFIES PROJECT COSTS BY CURRENT, FIXED, DEFERRED AND TRANSITORY ASSETS, AND OPERATING EXPENSES, AS OPPOSED TO THE PROJECT COST BREAKDOWN ESTABLISHED IN THE FINANCIAL PLAN. SINCE THE ACCOUNTING AND REPORTING OF EXPENDITURES ARE THE ONLY MEDIUM FOR INFORMATION ON PROJECT STATUS AND PROGRESS FOR MANAGEMENT, IT IS IMPORTANT THAT THE INSTITUTE USE THE ESTABLISHED UNIFORM CLASSIFICATION OF EXPENDITURES.

#### RECOMMENDATION No. 2

THE USAID SHOULD ENCOURAGE THE INSTITUTE TO MAINTAIN ITS ACCOUNTING RECORDS ON A CURRENT BASIS AT ALL TIMES, AND TO ARRANGE FOR TIMELY AUDITS OF ITS FINANCIAL STATEMENTS.

#### RECOMMENDATION No. 3

THE USAID SHOULD ASSURE THAT THE INSTITUTE MAINTAINS ITS ACCOUNTING RECORDS AND REPORTS IN CONFORMANCE WITH THE PROJECT COST BREAKDOWN ESTABLISHED IN THE FINANCIAL PLAN OF THE LOAN AGREEMENT.

#### GOB CONTRIBUTIONS

THE INSTITUTE DOES NOT MAINTAIN THE NECESSARY RECORDS TO SHOW HOW THE GOB'S CONTRIBUTIONS TO THE PROJECT ARE SPENT ON PROJECT COMPONENTS. AS A RESULT, WE WERE UNABLE TO DETERMINE IF THE GOB RESOURCES WERE EXPENDED ACCORDING TO THE FINANCIAL PLAN OF THE LOAN AGREEMENT.

WE REVIEWED MONTHLY REPORTS SUBMITTED BY THE INSTITUTE TO THE USAID, INDICATING THAT THE EQUIVALENT OF \$1,167,585 HAD BEEN CONTRIBUTED TO THE PROJECT BY THE GOB THROUGH OCTOBER 31, 1977. THE INSTITUTE'S BUDGET RECORDS SHOWED THAT 70 PERCENT OF THE GOB FUNDS WERE USED FOR SALARY COSTS. THE INSTITUTE'S PROJECT PAYROLL FOR OCTOBER 1977 SHOWED 124

EMPLOYEES WORKING IN DIFFERENT SECTIONS OF THE TARGET AREA, WITH A TOTAL MONTHLY PAYROLL OF \$29,400. HOWEVER, DURING OUR VISIT TO THE PROJECT SITE, WE FOUND THAT 14 EMPLOYEES INCLUDED ON THE PAYROLL, AT A COST OF \$4,350, WERE NOT ACTUALLY WORKING FOR THE PROJECT. WE ALSO FOUND THAT SEVERAL OTHER INSTITUTE EMPLOYEES WHO HAVE LITTLE OR NO PARTICIPATION IN PROJECT ACTIVITIES ARE BEING PAID WITH FUNDS PROVIDED BY THE GOB. IN SUMMARY, THIS INDICATES THAT THE GOB CONTRIBUTION TO THE PROJECT IS BEING CONSIDERABLY OVERSTATED.

RECOMMENDATION No. 4

THE USAID SHOULD REQUIRE THE INSTITUTE TO ESTABLISH APPROPRIATE RECORDS TO REFLECT THE GOB'S CONTRIBUTIONS TO THE PROJECT BY COST COMPONENTS CONSISTENT WITH THE FINANCIAL PLAN OF THE LOAN AGREEMENT.

RECOMMENDATION No. 5

THE USAID SHOULD REQUIRE THE INSTITUTE TO INCLUDE IN PROJECT-RELATED PAYROLLS ONLY THOSE EMPLOYEES ACTUALLY WORKING ON THE PROJECT ON A FULL-TIME BASIS, AND TO ASSURE THAT ONLY PROJECT-RELATED COSTS ARE CHARGED TO GOB RESOURCES PROVIDED FOR USE IN THE PROJECT.

INELIGIBLE COSTS

LOAN FUNDS WERE IMPROPERLY USED TO PAY BOLIVIAN CONSULAR FEES IN THE AMOUNT OF \$2,469. THIS PAYMENT WAS MADE BY THE BANK OF AMERICA IN NEW YORK UNDER LETTER OF COMMITMENT No. 511-T-05003, ISSUED BY AID FOR THE PROCUREMENT OF TWO TRACTORS AND TWO MOTORGRADERS FOR THE PROJECT.

SECTION 4.05 OF THE LOAN AGREEMENT PROVIDES THAT LOAN FUNDS SHALL NOT BE SUBJECT TO ANY TAX NOR SHALL ANY IDENTIFIABLE TAXES CONNECTED WITH PROJECT ACTIVITIES BE PAID WITH LOAN FUNDS. SUCH TAXES OR FEES SHOULD BE PAID FROM FUNDS DISTINCT FROM LOAN RESOURCES.

RECOMMENDATION No. 6

THE USAID SHOULD REQUEST THE GOB TO REFUND TO AID THE AMOUNT OF \$2,469, REPRESENTING THE AMOUNT OF LOAN 050 FUNDS IMPROPERLY USED TO PAY BOLIVIAN CONSULAR FEES UNDER LETTER OF COMMITMENT No. 511-T-05003.

INFORMATION AND MARKING

THE INSTITUTE HAS NOT MADE THE NECESSARY ARRANGEMENTS TO POST THE APPROPRIATE AID SYMBOLS AT THE PROJECT SITES. ALSO, EQUIPMENT AND MACHINERY IMPORTED FOR PROJECT WORK DOES NOT CARRY THE AID EMBLEMS.

SECTION 6.10 OF THE LOAN AGREEMENT AND SECTION I OF IMPLEMENTATION LETTER No. 1 PROVIDE THAT ALL ACTIVITIES, GOODS AND CONSTRUCTION SITES ASSOCIATED WITH LOAN FINANCING SHOULD MENTION THE ALLIANCE FOR PROGRESS.

RECOMMENDATION No. 7

THE USAID SHOULD REQUIRE PROMPT COMPLIANCE WITH THE PROVISIONS OF THE LOAN AGREEMENT RELATING TO INFORMATION AND MARKING AT THE PROJECT SITES.

REPORT RECIPIENTS

	<u>COPIES</u>
ASSISTANT ADMINISTRATOR -- BUREAU FOR LATIN AMERICA, AID/W	1
MISSION DIRECTOR, USAID/BOLIVIA	9
COUNTRY OFFICER, BOLIVIA - AID/W	1
DIRECTOR, LA/OPHS, AID/W	1
DIRECTOR, OPA, AID/W	1
AG, AID/W	1
AG/OC/PP, AID/W	1
AG/OC/PE, AID/W	1
AG/EX, AID/W	12
INSPECTOR-IN-CHARGE, IIS/PANAMA	1
AREA AUDITOR GENERAL, LATIN AMERICA, AAG/LA PANAMA	5
AAG/LA-LA PAZ REGIONAL OFFICE	6