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AUDIT OF REACTIVATED PROJECTS
USAID/BOLIVIA

AUDIT REPORT No. 1-511-86-09
FEBRUARY 28, 1986

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AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
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February 28, 1986

MEMORANDUM

TO: USAID/Bolivia, David Cohen

FROM: RIG/A/T, *Coinage N. Gothard*
Coinage N. Gothard, Jr.

SUBJECT: Audit Report No. 1-511-86-09,
Audit of Reactivated Projects

This report presents the results of the Audit of Reactivated Projects. A program results audit was made to determine whether the projects would achieve their intended results, and to selectively evaluate the efficiency of project operations, the adequacy of internal controls and compliance with AID procedures.

The audit showed that the reviewed projects had not achieved the intended results, efficiency of project operations could be better administered, internal controls needed to be improved and compliance with AID procedures needed to be better adhered to.

The audit showed that management of the reactivated projects could be improved in three areas. First, USAID/Bolivia could realize better project benefits by adjusting its targeted goals, simplifying project approval procedures and by periodically verifying its stockpile of project commodities. Secondly, monitoring of counterpart contributions could be improved by providing project managers with more explicit information on their status from information available in USAID records. Finally, management of cash advances for projects could be improved by adhering to existing regulatory guidance.

Actions recommended included (i) restructuring projects in accordance with available Government of Bolivia resources, establishing accountability procedures for project commodities, and simplifying approval procedures for project components, (ii) preparing and forwarding reports to project managers on total host country contributions made and host country contributions by project components for the life of the project, and (iii) strengthening procedures for cash advances and recovering advances that have not been properly liquidated.

Except for serially constructing schools under the Rural Education II Project, readjusting Agriculture Sector II objectives and issuing bills of collection for unliquidated advances, USAID/Bolivia agreed with the findings and recommendations and stated that corrective action had been or would be taken. Detailed management comments are presented after the discussion section in Part II of this report.

Our review also disclosed a number of serious problems with USAID/Bolivia's procurement function. Our findings in this area were excerpted from the draft report as well as the final report because this matter is currently being actively pursued by other elements of the Office of the Inspector General. When those inquiries have been completed, however, we plan to send you a separate draft report on your Mission's procurement function for review and comment.

Please advise this office within 30 days of the action taken or planned to clear the three recommendations made in our report.

EXECUTIVE SUMMARY

The Office of the Inspector General conducted an audit of five of the eight reactivated USAID/Bolivia projects. The audit covered AID project expenditures of \$27.3 million as of June 30, 1985 and included a review of project activities from January, 1983 through September 30, 1985. The audit was conducted at USAID/Bolivia and included several project site inspections in various parts of Bolivia. A brief description of the reviewed projects follows: Rural Education II (511-0482) sought to improve the professional capability of rural teachers to meet the educational needs of their students. Agriculture Sector II (511-0465) aimed to increase the availability of needed agricultural inputs, particularly newly cleared land and improved seeds for small farmers. Rural Access Roads II (511-0466) proposed to improve secondary rural roads and bridges. Rural Sanitation I (511-0458) was to provide health improvements to the rural poor by reducing the incidence of enteric and parasitic diseases. Departmental Development (511-0511)/Rural Development Planning (511-0471) was designed to raise the standard of living of the rural and urban poor by enhancing the outreach capability of the Departmental Development Corporations.

A program results audit was made to determine whether the projects would achieve their intended results, and to selectively evaluate the efficiency of project operations, the adequacy of internal controls and compliance with AID procedures.

The audit showed that the reviewed projects had not achieved the intended results, efficiency of project operations could be better administered, and internal controls needed to be improved and compliance with AID procedures needed to be better adhered to.

In general, we found that all the projects were behind schedule in achieving intended program results due to either lack of counterpart contributions, or cumbersome approval procedures for project implementation. We recommended that projects be restructured in accordance with realistic Government of Bolivia resources, procedures be established to ensure proper safeguarding and accountability of commodity inventories, and approval procedures for initiating project components be simplified. USAID/Bolivia partially agreed to reschedule project goals and agreed to establish procedures for safeguarding commodities and to simplify procedures for project implementation.

Counterpart fund contributions were \$9 million behind schedule. USAID/Bolivia was not effectively applying existing accounting procedures to insure counterpart fund contribution compliance. We recommended that USAID/Bolivia periodically prepare reports for its project managers containing total host country contributions made for the life of the project as well as detailed by project components. USAID/Bolivia partially agreed to the recommendations but maintained that their existing accounting system already accomplished this.

USAID/Bolivia had not liquidated advances totaling \$3.16 million. Advances were not liquidated because USAID personnel did not process

liquidation vouchers on a timely basis and Bolivian institutions did not always provide supporting documentation to justify liquidations. We recommended that USAID/Bolivia discontinue giving further advances until all advances outstanding beyond 30 days were liquidated; issue written instructions that liquidation vouchers be processed in a timely manner; prepare a written determination if implementation of its projects would be seriously interrupted were 30-day advance requirements applied; and issue bills of collection to the Government of Bolivia for \$528,714 because host country institutions either had not provided adequate documentation or had submitted ineligible expenses to liquidate advances. USAID/Bolivia agreed to our recommendations except for the issuance of Bills of Collection.

Office of the Inspector General

**AUDIT OF REACTIVATED PROJECTS
USAID/BOLIVIA**

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AUDIT OF REACTIVATED PROJECTS
USAID/BOLIVIA

PART I - INTRODUCTION

A. Background

Over the past several years, Bolivia has undergone drastic political and economic changes. After 16 years of military rule, a democratic government was briefly installed during 1978, only to be overthrown by a 1980 military coup. Military rule lasted until 1982, when Bolivia again elected a democratic government. However, the new government inherited a situation of chronic economic instability, a condition which has not improved. The administration of Dr. Hernan Siles Suazo presided over an economic decline resulting in three consecutive years of falling gross domestic products, the highest rate of inflation in the world (38,000 percent per year), an external debt of \$3.3 billion, and an annual unemployment rate surpassing 14 percent. Within this environment, the U.S. goal in Bolivia has been the preservation of a cooperative and stable government. AID's strategy in Bolivia has been to promote self-sustaining economic growth and to improve the well-being of the rural poor by increasing small farmer productivity, employment opportunities and growth in real incomes. To this end, USAID/Bolivia has been using its program portfolio, valued at \$157 million, to help bring about macro-economic changes.

After the military coup of 1980, AID suspended disbursements, but reactivated eight pre-1980 projects when Bolivia returned to democratic government three years later. The eight reactivated projects amounted to \$70.7 million. Five of the eight projects valued at \$54.4 million were currently being implemented, while the remaining three were either completed or cancelled. (See Exhibit 3.) When the projects were reactivated in 1983, revised project targets and goals were established to take into account changed conditions in Bolivia. Our audit was based on the revised targets and goals established at the time the projects were reactivated. A brief description of those reactivated projects currently being implemented follows:

Rural Education II (Project 511-0482) - The purpose of this project was to improve the professional capability of rural teachers to meet the educational needs of their students through: (1) training activities directed toward rural normal high and primary school teachers; (2) curriculum development for the normal schools emphasizing active student involvement in the teaching and learning process; (3) development of teaching materials and manuals; (4) facilities improvement (construction and remodeling of six normal schools); and (5) school administration improvement. At the time of reactivation, financing for the project consisted of a \$10 million AID loan, a \$2.1 million AID grant and planned Government of Bolivia counterpart contributions totaling \$4.7 million. The anticipated project completion date was December 31, 1985.

Agriculture Sector II (Project 511-0465)/Small Farm Production (Project 511-0481) - The purpose of the Agriculture II project was to increase the availability of needed agricultural inputs, particularly land clearing and improved seeds for small farmers, while the Small Farm project was to provide small farmers with the credit needed to purchase such inputs. At the time of reactivation, the projects were funded by an \$11.3 million AID loan, a \$3.07 million AID grant, a planned \$5.245 million Government of Bolivia counterpart contribution, and \$785,000 from the Departmental Development Corporation of Tarija. The anticipated project completion date was December 31, 1985.

Rural Access Roads II (Project 511-0466) - The project's purpose was to: (1) enhance the capacity of the secondary roads department of the Servicio Nacional de Caminos (national roads service) to improve rural roads and bridges; and (2) improve access to and from farms by upgrading 260 kilometers of secondary roads and repairing approximately 5 bridges along route 7 in the Chapare between Villa Tunari and Chimore. At reactivation, the project was funded by a \$9.04 million AID loan, a \$300,000 AID grant and a projected Bolivian contribution of \$3.1 million. The anticipated project completion date was December 31, 1986.

Rural Sanitation I (Project 511-0458) - The purpose of this project was to improve the health of the rural poor by reducing the incidence of enteric and parasitic diseases by constructing 178 water systems and 7,600 latrines in the northern provinces of the Department of Chuquisaca and throughout the Department of Cochabamba with particular emphasis on the Chapare region. At reactivation, the project was funded by \$4 million in loan funds, \$310,000 in grant funds and Government of Bolivia planned contributions totaling \$1.075 million. The anticipated project completion date was December 31, 1986.

Departmental Development (Project 511-0511)/Rural Development Planning (Project 511-0471) 1/ - This project's purpose was to improve the standard of living of the rural and urban poor by enhancing the outreach capability of the Departmental Development Corporations to identify and implement subprojects which would be of direct benefit to AID's target group, i.e. small farmers. Funding at reactivation consisted of a \$10 million AID loan (511-T-064) and a \$4.2 million grant (511-0471). Counterpart fund contributions for Departmental Development totaled \$1.6 million from the private sector, and a Bolivian contribution of \$504,000. The Rural Development Project had a contribution of \$526,000 from the Bolivian government.

1/ Although shown as separate projects in USAID Bolivia's project records, they represent a combined activity having similar goals and the same planned completion date. (See Exhibit 3.)

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa reviewed five of eight projects reactivated after the resumption in Bolivia of democratic government in October 1982. When the eight projects were reactivated in 1983, revised project targets and goals were established to address the changed conditions in Bolivia. Our audit was based on the revised targets and goals established at the time the projects were reactivated. The audit was done from May 1985 through September 1985 to determine whether the desired project goals were being achieved and if they were being achieved in an effective and efficient manner. Specific audit objectives were to:

- determine whether projects would achieve their planned results;
- selectively evaluate the efficiency of project operations, the adequacy of internal controls, and compliance with AID procedures.

The audit was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of internal controls as considered necessary under the circumstances. Audit work was performed at USAID/Bolivia and Bolivian Government agencies. We verified the accuracy of AID financial reports, selectively tested Bolivian financial records and performed such other reviews and tests as considered necessary. A total of 35 project sites were visited to interview Bolivian officials, inspect equipment and facilities and assess overall project results.

The audit covered the period since the projects' reactivations in January 1983 through June 30, 1985 for financial transactions totaling \$27.3 million, and through September 30, 1985 for overall program activities. Audit work was not done on the three projects that were either concluded or cancelled.

Listing of Audited Projects

<u>Name</u>	<u>Project No.</u>	<u>AID Life-of- Project Contribution</u>	<u>Disbursements to 6/30/85</u>
Agriculture Sector II	511-0481/0465	\$14,360,000	\$12,413,876
Rural Access Roads II	511-0466	9,342,000	1,900,504
Departmental Develop- ment Corporations	511-0511/0471	14,248,604	2,748,286
Rural Sanitation	511-0458	4,310,000	1,381,248
Rural Education II	511-0482	12,129,000	8,902,232
TOTAL		\$54,389,604 *****	\$27,346,146 *****

AUDIT OF REACTIVATED PROJECTS
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PART II - RESULTS OF AUDIT

The Office of the Regional Inspector General for Audit/Tegucigalpa conducted a program results audit of five of eight reactivated projects. Our audit dealt with the revised targets and goals established at the time the projects were reactivated. The audit showed that the reviewed projects had not achieved the intended results, project operations could be better administered, internal controls needed to be improved and compliance with AID procedures needed to be better adhered to.

The audit showed that management of the reactivated projects could be improved in three areas.

- USAID/Bolivia could realize better project benefits by adjusting its targeted goals, simplifying project approval procedures and by periodically verifying its stockpile of project commodities.
- Monitoring of counterpart contributions could be improved by providing project managers with more explicit information on their status from information available in USAID records.
- Management of cash advances for projects could be improved by adhering to existing regulatory guidance.

Actions recommended included: (i) restructuring project components in accordance with available Government of Bolivia resources, establishing accountability procedures for project commodities, and simplifying approval procedures for project components; (ii) preparing and forwarding reports to project managers on total host country contributions made and host country contributions by project component for the life of the project; (iii) strengthening procedures for cash advances and recovering advances that had not been properly liquidated.

A. Findings and Recommendations

1. Implementation Progress

The audited projects were behind schedule in achieving intended program results due to lack of counterpart contributions, weak procurement systems and cumbersome approval procedures for sub-component implementation. As a result, the projects may not always attain planned project goals.

Recommendation No. 1

We recommend that USAID/Bolivia:

- (a) adjust the objectives under the Agriculture Sector II and Rural Access Roads II projects in accordance with available counterpart funds.
- (b) establish procedures whereby project officers would take periodic inventories of project commodities to ensure their proper safeguarding and accountability.
- (c) streamline the approval procedures for initiating sub-projects under the Departmental Development Project.

Discussion

Rural Education II - Our review of the construction of six schools showed that only one would probably be completed by the December 31, 1985 target date. At this school (Caracollo), construction work was about 60 percent complete; the other schools visited were about 20 percent complete.

Project Implementation Letter No. 41, dated December 23, 1982, required the "Government of Bolivia to provide the counterpart resources indicated in the project budget approved by both Governments." According to the revised budget, construction at each school site was adjusted to reflect current funds available. This budget required the Bolivian Government to provide \$2.2 million for school construction. However, as of June 30, 1985, only \$878,243 (40 percent) had been provided. Although the Bolivian Government has faced a virtually continual economic crisis, the Mission was optimistic that the necessary funds would be provided. A viable alternative would be to adjust construction goals, as was done after reactivation, to reflect the availability of Bolivian Government resources. Instead, USAID/Bolivia continued to promote the construction of all six schools. The result was that probably only one of the six schools would be built by the target date. In our opinion, building one school at a time would provide more benefits to the rural poor than having five incomplete schools. (See Exhibit 1 for pictures of various construction stages.)

Agriculture Sector II - Our audit indicated that, of the three small seed processing/storage facilities to be constructed and of the three existing facilities to be reconditioned by December 1985, only one of the three new plants would be completed and expansion of two of the three existing plants had not begun as of September, 1985.

Project objectives may have to be adjusted to compensate for the unavailability of adequate counterpart resources. Implementation Letter No. 79, dated May 26, 1983, required the Bolivian Government to contribute \$3.6 million, \$27,000, and \$796,000 for project administrative expenses, construction, and equipment and vehicles, respectively. As of June 30, 1985, only \$73,000 had been contributed for administrative expenses and no counterpart contributions had been made for construction or for equipment and vehicles. The following implementation problems were due to insufficient counterpart funds:

- technicians could not travel to project sites,
- construction of seed processing facilities remained incomplete,
- sub-project offices could not pay wages or purchase materials locally,
- heavy equipment bought for the El Chaco sub-project, to clear 6,000 hectares of land, was not being maintained. Of the eight units bought, three had been deadlined for about two years.

As discussed in a subsequent report section, more detailed monitoring of host country contributions by project components would have shown an inadequate flow of counterpart resources and could have led to reordering project priorities. A viable alternative would be to scale down project components in light of the fact that, as of June 30, 1985, the Bolivian Government had been able to produce only \$1.3 million (10 percent) of the statutory 25 percent counterpart funds required for total project costs, including the \$73,000 noted earlier for administrative expenses.

Rural Access Roads II - This project was behind schedule because only 14 kilometers of the planned 260 were under construction and no work had started on any of the five bridges. These delays were the result of a long-standing problem related to counterpart fund contributions.

A prior IG audit report (#1-511-80-12, dated June 17, 1980) on both the Rural Access Roads I and II projects stated:

'National Community Development Service (NCDS) has not supported the project as required by the National Road Service (SNC) agreement signed on February 10, 1977 because of a lack of funds to employ and support the needed staff.'

When we visited Cochabamba, we found the office there was short of funds, but had taken Bolivian Government funds from other activities to support the AID project. Although this was a plus for the AID project, it would be unrealistic to assume that the Bolivian Government would indefinitely

continue this practice. A viable alternative would be to closely monitor project counterpart funding and scale down components where necessary. For example, instead of simultaneously building a given number of meters on various bridges, it might be better to build the bridges serially.

Proper Safeguarding and Accountability of Commodities - The arrival of materials procured for the Rural Education II Project did not always coincide with construction plans. For example, a USAID/Bolivia memo dated August 23, 1985 entitled, "First review of the financial operations of Rural Education II," stated that:

We found that some items bought by the Central Office were sent to the Normal Schools with a considerable time of anticipation to the actual construction schedule needs, therefore, caused some troubles to the Normal School officials who had no plans for receiving and storing those items. During our review we found that a good quantity of lime was received by the Caracollo Normal School without any anticipated notice and was damaged by a heavy rainfall since the material was stored on an open yard.

Our site visits also confirmed that procurements were made even though the facilities were not yet constructed to receive the materials. Stockpiling of materials for anticipation of actual construction start can result in pilferage and deterioration. Although we found no evidence of pilferage, we did note the following:

- Lamps, irons, toilets and sewing machines had already arrived at school sites even though construction of the buildings was not complete. Some of these goods had been at the site for periods of up to three months.
- At Caracollo, two weaving machines were stored in a secured warehouse, but the machines would require assembly and the pertinent instructions could not be found. School officials could not assemble these machines and hence they were not being used.
- At Portachulo, school officials could not initially account for one of the four sewing machines delivered. After an extensive search, the machine was finally found at a private home.
- At Villa Serrano, construction material (cement, lumber) was sold by the project engineer to pay salaries due Bolivian personnel.

To ensure the safeguarding and accountability of stockpiled goods, we are recommending that project officers include a review of project-funded commodities as part of their field visits.

Departmental Development - This is a combined project, the Rural Development Planning Project funded by Grant 511-0471 and the Departmental Development Corporation Project funded by loans 511-T-064 and 511-W-065.

The grant provided financing of \$4.2 million for technical assistance in various aspects of development planning, project implementation and training for Departmental Development Corporations ^{2/} and the Ministry of Planning and Coordination. Even though the grant disbursement was interrupted between November 1981 and April 1984, some objectives had been accomplished. The two loans established a \$10.0 million complementary project implementation fund to finance small development subprojects. Within each Departmental Development Corporation, financial credit units were established in order to promote, design and monitor the subprojects. However, as of September 1985, only \$53,400 of the \$10.0 million had been disbursed.

Some of the reasons for the lack of subproject implementation were that:

- There was little support within the Government of Bolivia;
- Conditions precedent to loan disbursement were not fully met until mid-1984.
- The implementing agency (Ministry of Planning and Coordination) proved to be inappropriate.
- The mechanism for sub project funding involves the participation of sub-borrowers, intermediate credit institutions, the P.L. 480 executive secretariat and USAID/Bolivia, resulting in a cumbersome approval procedure. Seventeen steps were needed to get a sub-project approved, which delayed implementation and discouraged beneficiaries in applying for sub-loans.
- USAID/Bolivia sometimes took more than six months to review and approve/disapprove projects.
- When projects were finally approved, counterpart funds (P.L. 480) often were not available.

As a result, of 70 subprojects presented for review, only one had obtained approval. Disbursement for the project has amounted to \$53,400 between calendar years 1983 and 1985.

^{2/} Departmental Development Corporations are autonomous institutions created to serve as public works committees and promote economic and social development in each of the nine Bolivian Departments.

Management Comments

In the draft report we recommended that USAID/Bolivia reschedule the construction of the six rural schools under the Rural Education II Project to ensure that scarce counterpart fund resources are used to build schools serially instead of simultaneously.

USAID/Bolivia did not agree to serially construct the six rural schools under the Rural Education II Project and stated that:

A change to construct the schools serially rather than simultaneously would be immediately opposed by regional interests, rural teachers' federations, citizens' groups as well as the Government of Bolivia whose aim is to provide simultaneous educational facilities to departments involved in order to meet their demands for education improvement and development. These regional pressures are precisely the best support to obtain disbursement of counterpart funds from the Government of Bolivia authorities. While we recognize the construction delays and the limited Government of Bolivia counterpart contributions at the time of the audit, the unfavorable special circumstances described above should be considered. As the country moves toward more stable and normal conditions, construction plans and counterpart contribution are being more closely adhered to the project implementation schedules. As of this writing all counterpart contributions due by the Government of Bolivia in this project have been deposited in the special account. We anticipate that the normal schools will be completed by September 30, 1986, the new project anticipated completion date. Completion would be impossible if done serially.

Office of Inspector General Comments

While we remain doubtful that, based on past experience in Bolivia, all the schools will be completed even by the new anticipated completion date, we have deleted the earlier recommendation because the Mission has made a management decision based on political motivations not to serially construct the six schools.

Recommendation No. 1(b) - Adjust the objectives under the Agriculture Sector II, and Rural Access Roads II Projects in accordance with available counterpart funds.

USAID/Bolivia agreed to adjust the objectives under the Rural Access Roads II Project but did not agree to adjust the Agricultural Sector II objectives. USAID/Bolivia stated that:

Individual Project elements for the Rural Access Roads II Project would be modified based on the SNC's (Servicio Nacional de Caminos) assigned 1986 budget and ability to provide counterpart funding.

The objective of the Agricultural Sector II Project did not need adjustment because the project did not fall behind for lack of counterpart funds. Furthermore, counterpart funds were not a critical factor for the success of this project as the GOB's contribution on this project were to be made mostly in kind. Most counterpart comes from the private sector, which is cooperating in a fine fashion with USAID to make this project a success.

Office of Inspector General Comments

Based on audit results, the Agriculture Sector II project was behind schedule due to a lack of counterpart funding. As previously stated, no counterpart contributions had been made for the construction of seed processing facilities. We believe the action to be taken on the Rural Access Roads II Project should be similarly applied to the Agriculture Sector II Project because the project is clearly behind schedule and there was little indication that the planned objective would be met.

Recommendation No. 1(c) - Establish procedures whereby project officers would take periodic inventories of project commodities to ensure their proper safeguarding and accountability.

USAID/Bolivia agreed and stated that:

Appropriate measures are being taken to improve project commodity controls. For example, in the project the auditors are referring to (rural Education II), agreement was reached with the Minister of Education to hire more competent staff and implement better ordering and inventory control of construction materials.

Recommendation No. 1(d) - Streamline the approval procedures for initiating sub-projects under the Departmental Development.

USAID/Bolivia agreed and stated that:

This has been done. In an effort to establish internal controls, the approval system has become cumbersome. The system has been reviewed and as a result a coordinating committee, composed of members from each participating institution, meets on a weekly basis to discuss imminent problems and expedite solutions. Thereby eliminating unnecessary paper flow between offices. Also the use of the letters of credit vs. direct letters of commitment - an instrument better known and understood by the Intermediate Credit Institute investors and suppliers - has helped in the general acceptance of sub-projects.

Office of Inspector General Comments

We will consider closing the recommendations 1(c) and 1(d) upon receipt of evidence that the aforementioned procedures are documented in either an Implementation Letter or Mission order, as appropriate.

2. Counterpart Fund Contributions

USAID/Bolivia could improve its monitoring of counterpart fund contributions. We found that USAID/Bolivia was not implementing existing accounting procedures to ensure compliance with host country counterpart fund obligations and that host country information was not always made available to project managers. As a result, the projects were about \$9 million short of counterpart contributions.

Recommendation No. 2

We recommend that USAID/Bolivia periodically prepare information reports for its project managers containing the following information on Government of Bolivia contributions to AID projects: (i) the total cumulative host country contribution made in dollar terms, and as a percentage of the life-of-project planned contribution; and (ii) the host country contribution by major project component in terms of dollars, and as a percentage of life-of-project planned contribution.

Discussion

Section 110 (a) of the Foreign Assistance Act, as amended, states:

No assistance shall be furnished by the U.S. to a country under Section 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied that such country will provide at least 25 percent of the costs of the entire program, project, or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an 'in-kind basis'.

To ensure counterpart fund contributions are met, USAID/Bolivia devised and implemented a pari passu accounting system. This system was implemented in 1983; it called for AID and host country funds to be deposited every 90 days into special accounts established for each project. Each 90 days, USAID/Bolivia was to make a determination as to the amount the Bolivian Government was to deposit into the special account to meet its counterpart commitment. If the counterpart funds due from the host country were not deposited prior to the end of a 90 day period, AID would withhold further funding.

However, the system was not being used effectively as a management tool for project managers. For example, the system does not alert project managers to problems, or potential problem projects, because no management information report is prepared on a routine basis showing such information as, (i) the overall host country contribution to date (both in terms of total dollars and as a percent of the agreed upon life-of-project contribution), and (ii) the host country contribution by project components, also in terms of dollars and as a percentage of agreed upon life of project contribution.

Such information could be obtained from USAID/Bolivia's accounting records, but we found no evidence that it was being systematically provided to project managers.

(i) Agriculture II: This project was reactivated on May 26, 1983. At the time of reactivation, the Bolivian Government agreed to contribute approximately \$6.0 million (42 percent) of the total project budget. As of June 30, 1985, USAID/Bolivia had disbursed \$12,413,876 while the Bolivian Government had only contributed \$1,273,397 (10 percent). The project completion date for this project is December 31, 1986.

(ii) Rural Access Roads: This project was reactivated on October 14, 1983. At the time of reactivation the Government of Bolivia agreed to contribute \$3,689,000 (70 percent) of the total project budget. As of June 30, 1985, USAID/Bolivia had disbursed \$1,900,504 while the Bolivian Government had only contributed \$75,074 (4 percent) of its commitment. The project completion date is December 31, 1986.

(iii) Departmental Development: This project was reactivated on September 15, 1983. At the time of reactivation, the Government of Bolivia agreed to contribute \$2,862,000 (20 percent of AID's commitment of 14 million). As of June 30, 1985, USAID/Bolivia had disbursed \$2,748,286 while the Bolivian Government had only contributed \$61,855 (2.2 percent of its intended 20 percent commitment); the project is scheduled for completion December 31, 1985.

While it is well to monitor cumulative Bolivian Government contributions, counterpart funding of major project components should also be periodically verified to ensure timely implementation and even progress. For example, in the Rural Education II Project, while contributions to some project components exceeded planned amounts, the counterpart contribution to the school construction component has fallen short by over one million dollars.

<u>Rural Education II</u>		
<u>Project Objectives</u>	<u>Planned Bolivian Contribution</u>	<u>June 30, 1985 Actual</u>
1. Teacher Training	\$ 68,000	\$ 312,982
2. Curriculum/Teaching	1,966	116,685
3. Facilities	2,156,505	878,243
4. School Administration	1,673,965	1,263,442
Totals	<u>\$3,900,436</u>	<u>\$2,571,352</u>

As illustrated, the facilities component (construction of six schools) is far short of the planned contribution both absolutely and in comparison with the progress of other components. Establishment of a target percentage would alert management to component shortfalls and prompt remedial actions.

Management Comments

Recommendation No. 2

We recommend that USAID/Bolivia periodically prepare information reports for its project managers containing the following information on Government of Bolivia contributions to AID projects: (i) the total cumulative host country contribution made in dollar terms, and as a percentage of the life-of-project planned contribution; and (ii) the host country contribution by major project component in terms of dollars, and as a percentage of life-of-project planned contribution.

USAID/Bolivia partially agreed with the recommendation and stated that:

The auditors are unduly concerned about the apparently low levels of Government of Bolivia contribution. This is the result of analyzing host country contributions during the life of the projects while the following two distinct periods should have been separated and taken into account: a) prior to reactivation, when the Government of Bolivia did not in fact reach the levels committed, and b) after reactivation, when the provision of the quarterly Government of Bolivia counterpart was a pre-condition to further AID disbursements.

USAID/Bolivia designed a project accounting system called the "pari passu" system for all loans and grants to be implemented in the reactivation period which started in 1983. Under this system the borrower/grantee must prepare: a) detailed annual and quarterly budgets by project components, sub-components and items under the AID and host-country contributions, and b) a detailed set of reports showing all disbursements from the AID and Government of Bolivia accounts on a quarterly and cumulative basis. The Pari-Passu system's main objective, among others, is to ensure that the host country has made its counterpart contributions. The host country must provide evidence of deposit to the special account of the required quarterly counterpart contribution prior to USAID's further disbursements.

Among the reports designed in 1983 for this system was a quarterly financial report showing cumulative amounts disbursed by component, sub-component and item under the USAID and Government of Bolivia contributions. This report also shows the percentage of variance between the disbursements and budgeted amounts. Under these procedures, the financial reports, prepared by the implementing agency and assisted by Controller's Office accountants, are remitted to project managers.

It is true that due to the severe economic crisis prevailing earlier in this country, the implementation of this system was slow then and there were exceptions made in its implementation. The system, however, is currently under review and is being streamlined. The Controller's Office has two accountants whose responsibility is to assist the project implementing agencies in the application of the Pari-Passu procedures and requirements.

In additions, there are three project accountants in the Controller's Office supporting the implementation of this system. At the present time, we can state that with some minor exceptions, all projects are efficiently applying the pari passu system and procedures.

Office of Inspector General Comments

The Mission's comments on the pari passu system, as well as our earlier audit work, indicate that effective application of the system could help ensure that the host government is meeting its agreed upon contribution, and could alert project managers when the contributions are not being met.

Nevertheless, we are retaining the recommendation because, as stated in the Mission's response, there are still exceptions to the application of the pari passu system and because audit results showed that the project managers were not routinely provided information showing the overall host country contribution by project and project components over the life of the project.

Since USAID/Bolivia stated that the pari passu system is currently being improved, we will consider closing the recommendation if the following are provided: evidence that reports on i) total cumulative host country contributions made in dollar terms and as a percentage of the life of project planned contributions and ii) host country contributions by major project component in terms of dollars and as a percentage of life of project planned contribution are being provided to project managers on a systematic routine basis.

3. Unliquidated Advances

USAID/Bolivia had not liquidated advances totaling \$3.16 million for seven of the eight reactivated projects. Advances were not liquidated because USAID personnel did not process liquidation vouchers on a timely basis and Bolivian institutions did not always provide supporting documentation to justify liquidations. Consequently, over one-quarter million dollars in borrowing costs were unnecessarily incurred by the U.S. Treasury to support USAID/Bolivia's programs.

Recommendation No. 3

We recommend that USAID/Bolivia:

- (a) discontinue making further advances until all advances outstanding beyond 30 days have been liquidated, or their extension properly justified.
- (b) issue written instructions that liquidation vouchers are to be processed in a timely manner.
- (c) prepare a written determination that implementation of the projects would be seriously interrupted by limiting advances to 30 days' advance requirements.
- (d) issue Bills of Collection as appropriate for outstanding advances for which adequate documentation had either not been provided or ineligible expenses were submitted to liquidate the advances.

Discussion

Advances are generally defined as payments made before delivery of goods and services and are usually limited to the minimum amount necessary for immediate needs. AID Handbook 19 Appendix 1B Section B3.d(2) states that advances may be assumed to be cash requirements for as much as 30 days from the date the recipient receives the advance until it is expended. As an exception to the rule, the period of an advance may be extended for as long as 90 days when the Bureau Assistant Administrator, USAID Director, or Office head has determined in writing that implementation will be seriously interrupted or impeded by applying the 30 day rule.

As of June 30, 1985, USAID/Bolivia had \$3.16 million in outstanding advances in excess of 30 days. These advances included, in addition to the five reviewed projects, advances for the Village Development Project which had been cancelled and for the Agriculture Sector I Project. Although the Agriculture I project was not originally included in our audit scope, we included unliquidated advances information for that project in order that USAID/Bolivia could take corrective actions on all its outstanding advances.

Untimely Processing - Documents presented to the USAID/Bolivia controller's office by Bolivian institutions were not always processed in a timely manner. Under the Agriculture Sector II Project, liquidation vouchers totaling \$159,035 were presented in December 1984, March and May 1985, but had not been processed as of August 30, 1985. Similarly \$208,000 worth of liquidation documents were presented under the Village Development Project in December 1984 and March 1985 but USAID/Bolivia had still not liquidated the advances. The Controller was unaware of these unliquidated advances until the matter was disclosed through audit. The Controller took immediate corrective action.

Inadequate Documentation - The Bolivian government did not maintain proper accounting records to permit liquidating the advances. Bolivian officials told us that high turnover in personnel resulted in a chaotic working situation. For six of the eight reactivated projects, \$528,714 in advances could not be properly liquidated either because there was no supporting documentation or ineligible expenses were incurred.

The following schedule illustrates those unliquidated advances for which no supporting documentation existed.

<u>Project</u>	<u>Amount</u>	<u>Responsible Unit</u>
Small Farmer Organization	\$54,266	National Community Development Service
Rural Education II	\$35,654	Coordinating Unit
Agriculture Sector II	3,617	Coordinating Unit
Rural Roads II	3,618	National Road Service
TOTAL	<u>\$97,155</u> *****	

The following schedule illustrates those unliquidated advances caused by improper expenses.

<u>INELIGIBLE EXPENSES</u>		
<u>Project</u>	<u>Amount</u>	<u>Responsible Unit</u>
Small Farmer Organization I	\$ 21,902	Minister of Agriculture and Campesino Affairs
Agriculture Sector II	113,357	Agriculture Bank of Bolivia
Agriculture Sector II	29,593	Minister of Agriculture and Campesino Affairs
Village Development	266,707	National Community Development Service
TOTAL	<u>\$431,559</u> *****	

Currently, USAID/Bolivia's accounting system calls for Bolivian institutions to submit a liquidation voucher after the first sixty days of the advance period. However, we found no written determination to allow for the extension of the 30-day requirement.

Prompt liquidation of outstanding advances is essential to prevent unnecessary costs to the U.S. Treasury. Using an average interest rate of 9 percent, we determined that \$288,780 in unnecessary costs were incurred. This amount was computed by multiplying the \$3.16 million of advances for which the Bolivian Government had not presented vouchers for liquidation by the 9 percent interest rate. Although we identified \$528,714 of the total \$3.16 million unliquidated advances as not being submitted due to inadequate documentation or ineligible expenses, we did not verify the causes for the remaining \$2.6 million. However, it is very likely that the same causes would also apply. See Exhibit 2 for details.

Management Comments

Recommendation No. 3(a) - Discontinue making further advances until all advances outstanding beyond 30 days have been liquidated, or their extension properly justified.

USAID/Bolivia agreed and stated that:

The USAID/Bolivia Mission Director has signed an action memorandum on October 30, 1985, establishing uniform Mission policy to provide advances limited to the minimum amount needed for immediate disbursing needs by the up to the 90 days requirements and replenished quarterly.

Recommendation No. 3(b) - Issue written instructions that liquidation vouchers are to be processed in a timely manner.

USAID/Bolivia agreed and stated that:

Instructions are in the process of being written in this regard and will be issued by February 15, 1986.

Recommendation No. 3(c) - Prepare a written determination that implementation of the projects would be seriously interrupted by limiting advances to 30 days' advance requirements.

USAID/Bolivia agreed and stated that:

The action memorandum mentioned in 3(a) above responds to this recommendation.

Office of Inspector General Comments

In the draft report [Recommendation No. 3(d)] we recommended that USAID/Bolivia issue Bills of Collection as appropriate for outstanding advances totalling \$528,714 for which adequate documentation had either not been provided or ineligible expenses were submitted to liquidate the advances.

USAID/Bolivia did not agree and stated that:

The amount stated in this recommendation as outstanding advances for inadequate documentation or ineligible category of expenditures has been reduced considerably since June 30, 1985. The project implementing agencies have submitted necessary and valid documentation to clear a substantial portion of the \$528,714 indicated in the draft audit report. The Controller's Office project accountants are now in the process of clearing further unliquidated advances included in the above amount. The following schedule illustrates the unliquidated advances as of January 27, 1986.

Unliquidated Advances

<u>Project</u>	<u>Original Amount</u>	<u>Amount Liquidated</u>	<u>Still Outstanding</u>
Small Farmer Org.	\$ 76,168	\$ 6,276	\$ 69,892
Rural Education II	35,654	---	35,654
Rural Roads II	3,618	---	3,618
Agriculture Sector II	146,567	---	146,567
Village Development	<u>266,707</u>	<u>266,707</u>	<u>---</u>
Total	<u>\$528,714</u> *****	<u>\$272,983</u> *****	<u>\$255,731</u> *****

We do not consider it appropriate at this time to issue Bills for Collection for the remaining unliquidated advances. Since these are on-going projects, a faster and more effective procedure is to deduct the amounts due from the next quarterly funds requirements submitted by the borrower/grantee.

Office of Inspector General Comments

The Mission stated in its response that the "...project implementing agencies have submitted necessary and valid documentation to clear a substantial portion of the \$528,714...." Based on that statement and other action reported in the above response we have revised Recommendation No. 3(d), as stated on page 16.

Based on the Mission's reported actions, recommendation 3(a) and 3(c) are closed upon issuance of this report. Recommendation 3(b) and 3(d) remain open.

B. Compliance and Internal Controls

Compliance The audit disclosed three compliance exceptions:

- Section 110 (a) of the Foreign Assistance Act, as amended, requires the host country to provide at least 25 percent of the costs of the project. In three of five projects audited, the Government of Bolivia was not in compliance with this requirement. (See Finding 2.)
- According to Handbook 19, advances may be assumed to be cash requirements for as much as 30 days from the date the recipient receives the advance until it is expended. USAID/Bolivia had not liquidated advances totaling \$3.16 million for seven of the eight reactivated projects. (See Finding 3.)
- Several serious problems with USAID/Bolivia's procurement function surfaced during the audit. Our findings in this area were excerpted from the draft report as well as the final report because this matter is currently being pursued by other elements of the Office of the Inspector General. When those inquiries have been completed, we plan to issue a separate report on the Mission's procurement function.

Other than the conditions cited, items tested were in compliance with applicable laws and regulations, and nothing came to our attention during the audit that would indicate that untested items were not in compliance with applicable laws and regulations.

Internal Controls USAID/Bolivia's counterpart funds accounting system was not being utilized properly. The system did not alert project managers to problems, or potential problem projects, because no management information report was prepared on a routine basis showing such information as, (1) the overall host country contribution to date, both in terms of total dollars and as a percent of the agreed upon life of project contribution, and (2) the host country contribution by project component, also in terms of dollars and as a percentage of agreed upon life of project contribution. (See Finding 2.)

C. Other Pertinent Matters

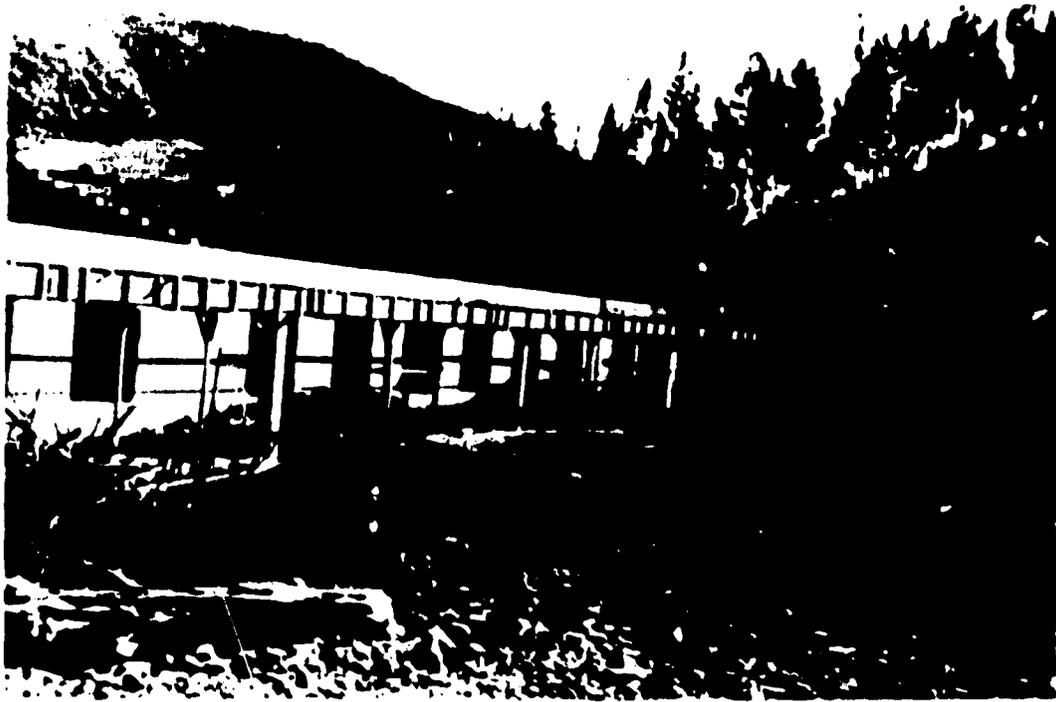
An issue that came to our attention during the audit was that few field trips were made by USAID/Bolivia personnel to project sites. Government of Bolivia personnel at Portachuelo, Santa Cruz, Cochabamba, Sucre, and Potosi stated that visits by USAID/Bolivia personnel were infrequent. AID Handbook 3, (Project Assistance) chapter 11, paragraph 11E2A (b) emphasizes the importance of periodic site visits, stating that "Physical inspection of the activity by AID is an essential monitoring tool." (Emphasis added) To provide for efficient management and continuity, such visits should be recorded in written reports, as specified in appendix 11 C (1) of AID Handbook 3. Field trips are necessary so that USAID personnel know what transpires at project sites and, also, to display to Bolivian officials U.S. Government interest in the project.

AUDIT OF REACTIVATED PROJECT
USAID BOLIVIA

Rural School Construction - Rural Education II

Caiza D - September 18, 1985

25 percent completed



AUDIT OF REACTIVATED PROJECT
USAID BOLIVIA

Rural School Construction - Rural Education II

Villa Serrano - September 20, 1985

20 percent completed



24

AUDIT OF REACTIVATED PROJECT
USAID BOLIVIA

Rural School Construction - Rural Education II

Canasmor - September 24, 1985

25 percent completed



AUDIT OF REACTIVATED PROJECTS

EXHIBIT 2

USAID/BOLIVIA

Page 1 of 4

Listing of Unliquidated Advances

<u>Project</u>	<u>Amounts</u>		<u>Applied Interest Rate</u>		<u>Time In Years</u>	<u>Total (Rounded)</u>
Small Farmer Organization	\$9,757.43	x	9%	x	6.92 =	\$6,077
	371.68	x	9%	x	6.75 =	226
	558.24	x	9%	x	6.50 =	327
	106.64	x	9%	x	6.00 =	58
	2,036.06	x	9%	x	5.67 =	1,039
	30,893.08	x	9%	x	2.83 =	7,868
	560.00	x	9%	x	2.42 =	122
	<u>10,543.00</u>	x	9%	x	1.50 =	<u>1,423</u>
Sub-total	\$54,826.13					\$17,140
	=====					=====
Agriculture Sector I	\$10,770.74	x	9%	x	6.08 =	\$5,894
	4,488.32	x	9%	x	5.75 =	2,323
	<u>6,642.99</u>	x	9%	x	5.33 =	<u>3,187</u>
Sub-total	\$21,902.05					\$11,404
	=====					=====

24

<u>Project</u>	<u>Amounts</u>		<u>Applied Interest Rate</u>		<u>Time In Years</u>	<u>Total (Rounded)</u>
Agriculture Sector II	\$70.20	x	9%	x	5.75 =	\$36
	2,932.55	x	9%	x	5.67 =	1,496
	113,357.13	x	9%	x	2.83 =	28,872
	30,206.63	x	9%	x	5.33 =	14,490
	17,700.00	x	9%	x	1.00 =	1,593
	131,075.00	x	9%	x	.83 =	9,791
Sub-total	\$295,341.51					\$56,278
	*****					*****
Rural Education II	\$72,132.19	x	9%	x	.83 =	\$5,388
	61.02	x	9%	x	5.83 =	32
	1,211.68	x	9%	x	2.58 =	281
	487,650.00	x	9%	x	.75 =	32,916
	83,572.25	x	9%	x	.67 =	5,039
	126,612.83	x	9%	x	.50 =	5,698
	448,442.69	x	9%	x	.42 =	16,951
	591,615.28	x	9%	x	.33 =	17,571
	34,381.59	x	9%	x	1.83 =	5,663
	60,506.30	x	9%	x	.25 =	1,361
Sub-total	\$1,906,185.83					\$90,900
	*****					*****

<u>Project</u>	<u>Amounts</u>		<u>Applied Interest Rate</u>		<u>Time In Years</u>	<u>Total (Rounded)</u>
Village Development	\$ 9,097.69	x	9%	x	5.67 =	\$4,643
	183,330.65	x	9%	x	3.58 =	59,069
	13,042.54	x	9%	x	2.08 =	2,442
	126,048.09	x	9%	x	1.50 =	17,016
	1,167.32	x	9%	x	.42 =	44
	161.46	x	9%	x	.33 =	5
	106.96	x	9%	x	.25 =	2
	52,662.50	x	9%	x	.67 =	3,176
	<u>164,022.28</u>	x	9%	x	.50 =	<u>7,381</u>
Sub-total	\$549,639.49					\$93,778
	=====					=====
Rural Access Roads	\$3,618.02	x	9%	x	5.00 =	\$1,628
	<u>146,187.98</u>	x	9%	x	.33 =	<u>4,342</u>
Sub-total	\$149,806.00					\$5,970
	=====					=====
Rural Sanitation	\$ 16,000.00	x	9%	x	1.41 =	\$ 2,030
	16,568.62	x	9%	x	1.17 =	1,745
	<u>22,997.50</u>	x	9%	x	.83 =	<u>1,718</u>
Sub-total	\$55,566.12					\$5,493
	=====					=====

<u>Project</u>	<u>Amounts</u>	<u>Applied Interest Rate</u>	<u>Time In Years</u>	<u>Total (Rounded)</u>
Rural Development Planning	\$129,627.54	x 9%	x .67 =	\$7,817
	*****			*****
NET TOTALS	\$3,162,894.67			\$288,780
	*****			*****

AUDIT OF REACTIVATED PROJECTS

EXHIBIT 3

USAID/BOLIVIA

Reactivated Project List

<u>Project</u>	<u>(Millions) Dollar Value</u>	<u>Status</u>
Rural Education II Project 511-0482	\$12.1	Being Implemented
Rural Access Roads II Project 511-0466	9.3	Being Implemented
Rural Sanitation Project 511-0458	4.3	Being Implemented
Agricultural Sector II <u>1/</u> Project 511-0465	14.4	Being Implemented
Departmental Development Corp. <u>2/</u> Project 511-0511	<u>14.3</u>	Being Implemented
SUB-TOTAL:	\$54.4	
Consolidation of Colonization Programs Project 511-0514	1.4	Completed
Village Development Project 511-0499	3.3	Cancelled
Small Farmer Organizations Project 511-0452	<u>11.6</u>	Completed
TOTAL:	\$70.7 *****	

1/ Includes project #511-0481 "Small Farm Production" - \$3.07 million grant
2/ Includes project #511-0471 "Rural Development Planning" - \$3.9 million grant

VB

Appendix 1

List of Recommendations

Recommendation No. 1

We recommend that USAID/Bolivia:

- a) adjust the objectives under the Agriculture Sector II and Rural Access Roads II projects in accordance with available counterpart funds.
- b) establish procedures whereby project officers would take periodic inventories of project commodities to ensure their proper safeguarding and accountability.
- c) streamline the approval procedures for initiating sub-projects under the Departmental Development.

Recommendation No. 2

We recommend that USAID/Bolivia periodically prepare information reports for its project managers containing the following information on Government of Bolivia contributions to AID projects: (i) the total cumulative host country contribution made: in dollar terms, and as a percentage of the life-of-project planned contribution; and (ii) the host country contribution by major project component in terms of dollars, and as a percentage of life-of-project planned contribution.

Recommendation No. 3

We recommend that USAID/Bolivia:

- a) discontinue making further advances until all advances outstanding beyond 30 days have been liquidated, or their extension properly justified.
- b) issue written instructions that liquidation vouchers are to be processed in a timely manner.
- c) prepare a written determination that implementation of the projects would be seriously interrupted by limiting advances to 30 days' advance requirements.
- d) issue Bills of Collection as appropriate for outstanding advances for which adequate documentation had either not been provided or ineligible expenses were submitted to liquidate the advances.

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