

PD ANT-608

AUDIT OF
MAE CHAEM WATERSHED DEVELOPMENT PROJECT
USAID/THAILAND
PROJECT NO. 493-0294

AUDIT REPORT NO. 2-493-86-04
May 28, 1986

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. John Eriksson, Director
USAID/Thailand

DATE: May 28, 1986

FROM : Leo V. LaMotte
RIG/A/Manila

RIG/EA-86-187

SUBJECT: Audit Of Mae Chaem Watershed Development Project

This report presents the results of audit of Mae Chaem Watershed Development Project. We reviewed the economy, efficiency and program results of the Project and focused on major issues of program planning and implementation. Specific objectives were to evaluate (a) prospects for project sustainability, (b) project progress and the system for measuring progress, and (c) monitoring of project resources.

The Mae Chaem Watershed Development Project experienced a number of implementation problems during its first two years, and many of the problems have been overcome. However, our audit showed that:

- Although one of the major goals of the Project was to have a self-sustaining agricultural production and watershed protection system in Mae Chaem, sustainability at the end of the project may not be achieved because of (1) the termination of funding for all Interface Teams, (2) a reduction in the number of extension agents and (3) inadequate funding for maintaining project roads.
- Sufficient data was not available to accurately measure project results, thus the USAID did not know the extent to which project goals and objectives were being achieved.
- USAID procedures for monitoring AID-financed resources were not current with changes in the AID handbook and were not being implemented by the Mission.

We recommended that the USAID develop a strategy to ensure that project sustaining activities are continued at the end of the project, and that the USAID improve its systems for monitoring project results and project commodity usage.

USAID/Thailand has responsibility of coordinating corrective actions on the reported recommendations. Please advise this office within 30 days of the action taken or planned to clear the three recommendations made in our report. Thank you for the cooperation extended to the audit staff.

Attachment:

Report on Mae Chaem Watershed Development Project

EXECUTIVE SUMMARY

The Mae Chaem Watershed Development Project started in August 1980 and will end in 1987. Total project costs were \$21 million, with AID providing a \$10 million grant and the Royal Thai Government providing the remaining \$11 million. The Project sought, over a seven year period, to provide the minimum essential requirements for initiating and sustaining the economic development process in the Mae Chaem watershed. The Project was to increase productivity of existing cropland, develop additional cropland and provide ancillary facilities for irrigation, agricultural credit, extension and research in Mae Chaem. The Project included small scale irrigation works, land terracing, and construction and rehabilitation of roads into the area.

This was an economy, efficiency and program results audit of the Project and focussed on major issues of program planning and implementation, which had a significant influence on the achievement of project goals. The specific objectives were to evaluate: (a) prospects for project sustainability, (b) project progress and the system for measuring project progress, and (c) the monitoring of project resource usage. The audit covered project activities for the period August 1980 through May 1985.

The Foreign Assistance Act states that foreign assistance funding is provided to promote conditions enabling developing countries to achieve self-sustaining economic growth. Although one of the major goals of the Project is to have a self-sustaining agricultural production and watershed protection system in Mae Chaem, sustainability may not be achieved because of (1) the termination of funding for all Interface Teams with no means being developed to take over their essential contribution to the communities, (2) a reduction in the number of extension agents from 1 per 400 families, as planned in the Project, to 1 per 1,175 families, and (3) inadequate Royal Forest Department funding for maintaining roads which were built with project funds and considered essential for erosion control and access. As a result, unless adequate advance preparations are made, many project achievements are not likely to be sustained after the AID project ends and large amounts of resources and effort put into the Project will have no lasting effect.

We recommended that USAID/Thailand develop a strategy of alternatives to increase the likelihood of project sustainability. The USAID commented that the reduction in extension agents and the low funding for road maintenance were not serious matters; however, our review showed that these resources were considered very important factors for success of the Project. The alternatives of AID's recurring cost policy should be considered in addressing these problems.

Agency procedures require Bureaus and Missions to establish and implement systems which will keep them informed as to the status of the Project in meeting its goals and objectives and for measuring project results. Sufficient data was not available to accurately measure project results. Important project indicators were not being collected and recorded by the project offices. As a result, neither the project office, nor Mission management knew the extent to which project goals and objectives were being achieved. We recommended that USAID/Thailand develop and implement a system for fully measuring project results. USAID concurred with this recommendation.

AID Handbook 3 requires the USAIDs to monitor the proper use of project resources during the project period as well as after the USAID terminates its active participation. Project managers were not monitoring the more than \$1.3 million AID-financed resources provided to this project. The USAID order on monitoring was not updated from its 1972 version; an inventory, status, locator report was not being maintained; and end-use checks were not being made to determine whether (1) resources were being effectively used, (2) the Royal Thai Government status reports were accurate, and (3) AID markings were properly displayed. In addition, no plans or procedures were available for monitoring resources after USAID withdrawal from the project. As a result, several vehicles and other equipment were unused and used ineffectively and no consideration was given to the after project use of over \$800,000 worth of AID-financed assets. We recommended improvements in the project resource monitoring guidelines and implementation. USAID concurred with this recommendation.

Office of The Inspector General

AUDIT OF
MAE CHAEM WATERSHED DEVELOPMENT PROJECT
USAID/THAILAND

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AUDIT OF
MAE CHAEM WATERSHED DEVELOPMENT PROJECT
USAID/THAILAND

PART I - INTRODUCTION

A. Background

On August 29, 1980, AID and the Royal Thai Government (RTG) signed Project Grant Agreement No. 493-0294 to finance the Mae Chaem Watershed Development Project in Chiang Mai Province, Thailand. The Project was essentially an experimental demonstration project in watershed development, focused in Mae Chaem, an area with less developed land and less developed land per household, than most other watersheds in Thailand. Total cost of the Project was \$21 million, of which AID was to provide \$10 million and the Royal Thai Government \$11 million. The Project Assistance Completion Date was June 30, 1987.

The Project was to increase productivity of existing cropland, develop additional cropland and provide ancillary facilities for irrigation, agricultural credit, extension and research. Environmental concerns were to be addressed through erosion control, experimental development of woodlots and fire control measures. The Project included small scale irrigation works, land terracing, and construction and rehabilitation of roads into the area, and a principal objective was to bring to bear the development activities of a number of agencies in a designated area. The Project was planned as a multi-agency effort to supply services to the watershed population, with a Project Operations Unit in Mae Chaem as the main coordinating mechanism.

The Project was delayed for two years partially because the RTG had not complied with a condition precedent to give land-use certificates to farmers and partially because of managerial and financial deficiencies. As a result of the land-use certificate issue, AID froze project funding for nearly one year, after which the government complied with the land-use requirement. However, this issue caused much damage to field operations and staff morale. After an evaluation was made in 1983, the Project was scaled down from three phases to two phases. Since 1983, considerable progress has been made in developing a project management and field operations strategy. As of March 31, 1985, only \$6.9 million of the \$10 million grant has been provided and USAID/Thailand will decide at a future date, if the additional \$3.1 million is required. Project expenditures as of March 31, 1985 totalled \$3 million (see Exhibit 1).

B. Audit Objectives And Scope

This was an economy, efficiency, and program results audit of project operations and focused on major issues of program planning and implementations, which had a significant influence on the achievement of project goals. The audit covered project activities from August 29, 1980, through May 17, 1985, and disbursements through March 31, 1985. This was the first time the Mae Chaem Watershed Development Project was audited by our office.

The specific audit objectives were to:

- evaluate prospects for project sustainability,
- evaluate project progress and the system for measuring progress, and
- determine whether use of project resources were being properly monitored.

The audit was conducted from April to September 1985. We reviewed pertinent files and interviewed RTG agency officials and Mission personnel responsible for project implementation in Bangkok and Chiang Mai Province, Thailand. For the \$3 million in project expenditures, we verified the accuracy of AID financial reports, selectively tested \$415,000 in transactions of the RTG financial records, and performed reviews of performance records. The audit was conducted in accordance with generally accepted government auditing standards.

The audit findings were discussed at the exit conference with USAID/Thailand officials. In addition, USAID official comments were considered in preparing the final report. A full text of the USAID official comments is presented as Appendix 1.

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PART II - RESULTS OF AUDIT

The Mae Chaem Watershed Development Project has experienced a number of implementation problems during its first two years. Although many of the problems have been overcome, the Project may not be sustainable after AID assistance ends. In addition, the USAID needs to improve its systems for measuring project results and for monitoring the usage of project commodities.

A. Findings And Recommendations

1. Project Sustainability Needs To Be Addressed Prior To End Of Project

The Foreign Assistance Act states that foreign assistance funding is provided to promote conditions enabling developing countries to achieve self-sustaining economic growth. Although one of the major goals of the Project is to have a self-sustaining agricultural production and watershed protection system in Mae Chaem, sustainability may not be achieved because of (1) the termination of funding for all Interface Teams with no means being developed to take over their essential contribution to the communities, (2) a reduction in the number of extension agents from 1 per 400 families, as planned in the Project Paper, to 1 per 1,175 families, and (3) inadequate Royal Forest Department funding for maintaining roads which were built with project funds and considered essential for erosion control and access. As a result, unless adequate advance preparations are made, many project achievements are not likely to be sustained after the AID project ends and large amounts of resources and effort put into the project will have no lasting effect.

Recommendation No. 1

We recommend that USAID/Thailand develop a strategy of alternatives in an effort to increase the likelihood of project sustainability including finding a way:

- a. for the function of Interface Teams to be assumed by others (community leaders, extension agents, etc.) or continue funding the teams until their function is taken over by others;
- b. to provide for sufficient number of extension agents to provide the necessary technical assistance to farmers; and
- c. to provide adequate funding for road maintenance.

Discussion

Section 101(a)(2) of the Foreign Assistance Act states that Foreign Assistance funding is provided to promote conditions enabling developing countries to achieve self-sustaining growth. This goal is also reiterated in the AID Policy Paper on Food and Agricultural Development which states that the overall objective of United States bilateral economic assistance is to stimulate self-sustaining economic growth.

AID Handbook 3 states that a project can only be considered complete when it is successfully generating a stream of benefits and helping the intended beneficiaries in the manner

and at the rate envisioned in the project. Successful "operating" or recurrent cost financing, continuing grantee management involvement and religious adherence to supply and maintenance requirements are typical ingredients in "successful project operations" and resultantly, sustained benefit generation, which, translates into "project completion."

The project agreement stated that the purpose of the Project was to establish a self-sustaining upward trend in real income and access to social services for the rural households of the Mae Chaem watershed. However, the loss of Interface Teams and extension agents, along with insufficient Royal Forestry Department funding for road maintenance, will severely limit sustainability in the project area.

Interface Teams - In the project design, AID incorporated a novel approach to facilitate line agency work at the village level. The strategy was to use special teams (Interface Teams) of project-trained, field workers. The teams consisted of 2 to 4 members (college graduates) which usually worked in 4 to 10 villages. These Interface Teams helped coordinate the actions of the line agencies and facilitated communications between government agencies and project villages. Local participation and bottom-up planning were to be stressed, with field implementation facilitated by Interface Teams living in project villages. In other words, their purpose was to demonstrate how the local community can work together and benefit from a relationship with Royal Thai Government (RTG) agencies and extension agents. The Interface Team members also acted as extension and other agency agents to distribute information, etc. to local farmers. As of August 1984, there were 28 Interface Teams in operation.

The RTG did not plan to continue funding the Interface Teams after AID assistance ends. A strong peer group relationship between Interface Team members and line agency field workers was a major factor in successful implementation of many project activities. Once the Teams are withdrawn, this relationship will cease to exist unless the villages are able to recreate this good working relationship themselves. Also, the extent of village dependence on Interface Team members to communicate with local and line agency officials is unknown. The project agreement anticipated team contact with beneficiaries once a week to facilitate the local organization required for an effective reception of RTG support services to and for the rural population. When this ends, the sudden withdrawal of Interface Teams from a project area may actually have a regressive effect on community participation in rural development.

Given the success of the Interface Teams and their popularity with the villages, a 1983 Project Evaluation Report suggested that a phasing-out plan be developed for the Interface Teams. When Phase I Interface Teams were scheduled to be dropped, many

villagers complained about the loss. As a result, the Project Operations Unit established mobile Interface Teams to fill the void.

We believe the USAID should work with the Project Operations Unit to determine the best course of action to ensure a continuation of the vital function being performed by the interfaced teams. Some alternatives which could be adopted individually or in combination are:

- test the impact of total withdrawal of Interface Teams from the village;
- transfer Interface Team functions to some other RTG entity in Mae Chaem; or
- train village leaders to take over Interface Team functions.

Extension Work - In addition, the extent that the Interface Teams have been assisting and supplementing agricultural extension agents is not known. But, given the close working relationship between Interface Teams and extension agents, the loss of Interface Teams may have an adverse impact on project extension work. This would indicate that plans should be made to increase the number of extension agents in the project area after the Interface Teams leave.

In fact, Handbook 3 states that as the project moves into its final stages of completion, an important USAID monitoring activity is to review grantee arrangements to ensure continuing viability of the project, e.g., the retention and utilization of trained participants.

However, current plans show that exactly the opposite will happen. There were 30 extension agents working in Mae Chaem in May 1985, of which 25 were funded by AID. There were no RTG plans to replace the AID-funded extension agents at the end of the project. The Project Paper called for an end-of-project ratio of one extension agent for every 400 families. However, extension agent coverage at the end of the project will drop from one agent per 196 families to one agent for every 1175 families. The loss of extension agents, along with the loss of the Interface Teams, will create a large void in development infrastructure which is likely to cause development efforts to stall, if not recede, in the Mae Chaem Watershed.

Road Maintenance - A third aspect of project sustainability which the USAID needed to address was the continued support of RTG services in Mae Chaem and continued protection against watershed erosion. This becomes especially important for maintenance of project structures such as roads. USAID programmed \$536,000 for the construction of dirt, all-weather roads in the project area to provide access and to control erosion because unmaintained roads were considered to be one of the major

causes of soil erosion. In addition, the Royal Forest Department was planning on spending up to \$1 million on project road construction. However, both the Royal Forest Department and the Project Director recognized that there was not enough money in the Royal Forestry Department budget for road maintenance.

The roads we saw were still under the care of the construction contractors and would come under Royal Forestry Department maintenance responsibility one year after completion. Therefore, we could not inspect the quality of the Royal Forestry Department maintenance program. However, the Forestry Department received only about \$370 per kilometer for annual road maintenance. This was substantially lower than the RTG Office of Accelerated Rural Development which received about \$3,700 per kilometer annually for road maintenance.

Handbook 3 states that after AID assistance ends, the grantee usually has a number of continuing responsibilities. One of these responsibilities is the organization for and the efficient management of project resources for the operational phase of the project, including the timely provision of adequate recurrent cost financing. The Handbook also states that, not later than the Project Assistance Completion Date, and preferably well before that date, the USAID should consider and discuss with the Implementing Agency all actions necessary to financially "close-out" a project. One such action is to review the adequacy of host country funding for the operation of the project and agree with the Implementing Agency on any additional steps necessary to ensure availability of recurrent costs financing. The USAID recognized the problem of insufficient recurrent cost funding for road maintenance, but had not worked with the implementing agency to develop a plan to overcome this problem.

Roads are important for providing inhabitants of Mae Chaem with access to agricultural supplies and markets as well as normal government services. With the low funding level for road maintenance, both USAID and the Project Director only expect the roads to be kept passable during the rainy season. In addition, the Project Paper stated that roads were the primary source of erosion in the Mae Chaem watershed. The proper maintenance of these roads is very important for protecting and maintaining the watershed. We believe that AID should seek some assurance that sufficient financial support will be available so that project roads will be properly maintained after AID assistance ends.

In addition, the May 1982 AID Policy Paper on Recurrent Costs discusses a number of options available to Missions when recurrent cost problems have been identified. These may include a redesign of the project, policy reform, reallocation of assistance, or recurrent cost funding by AID. This policy paper

should be consulted when the USAID develops a strategy to deal with project recurrent cost problems.

Although the end-of-project goal is to provide a self-sustaining agricultural production and watershed protection system, there were several implementation areas where a reduction in development efforts would impinge upon this goal. The sudden withdrawal of all Interface Teams and 80 percent of the extension agents from the project area will severely reduce communications links developed throughout the project. In addition, the RTG funding of maintenance for project roads was not sufficient. The USAID and the RTG have given too little attention to these problems and they need to address these issues now in order to ensure project sustainability. If these issues are not addressed, it is quite possible that project-related development activities in Mae Chaem, will stop once AID assistance ends.

Management Comments

The USAID stated that the Project was designed so that the Interface Teams would work themselves out of a job. In some cases, this has happened and Interface Teams had been transferred to other areas. However, the USAID acknowledged that it will be a longer process for a number of remote hilltribe villages, and that it is considering a no-cost extension of the Project to provide sufficient time to accomplish Interface Team work in these villages. The USAID did not believe that failure to maintain the planned ratio of extension agents to farmers would seriously affect the level of development in Mae Chaem and the sustainability of project benefits because: (1) the post-project level of agents will be approximately the same as in surrounding districts, (2) farmers will be able to contact agents at the five extension centers in the project area, and (3) the project's investment in roads and extension centers will enhance the agent's ability to extend agricultural technology. Although the USAID is working to increase the budget for road maintenance, it believed that \$370 per kilometer for maintenance of project roads was not unreasonable. Budgeted funds will be augmented with donated village labor. In addition, the provincial governor had assured project officials that provincial funds would be available to supplement the Royal Forestry Department's maintenance budget should the need arise and should the funds available be insufficient.

Office Of Inspector General Comments

The audit presented evidence from project papers, reports, and other documentation and discussions with officials responsible for the project which showed that throughout the project period audited:

- the Interface Team functions needed to be continued or assumed by village leaders or some other entity;
- at least twice the number of extension agents were needed; and
- road maintenance funding was too low.

The audit also showed that USAID managers of the Project believed these resources were needed and they told us they were trying to convince RTG officials to budget resources for these purposes. But, if the RTG refused to provide the resources, then nothing could be done by the USAID. Rather than addressing the problems, the USAID comments attempt to rationalize them away. The USAID instead should apply AID's policy on recurring costs, of which there are several alternatives, and proceed positively toward addressing these project sustainability issues.

2. A System For Measuring Project Results Needs To Be Fully Developed And Implemented

Agency procedures require Bureaus and Missions to establish and implement systems which will keep them informed as to the status of the Project in meeting its goals and objectives and for measuring project results. Sufficient data was not available to accurately measure project results. Important project indicators were not being collected and recorded by the project office. As a result, neither the project office, nor Mission management knew the extent to which project goals and objectives were being achieved.

Recommendation No. 2

We recommend that USAID/Thailand develop and implement a system for fully measuring project results as required in Handbook 3. Such a system should include:

- a. setting goals and objectives in clear and quantifiable terms with milestones;
- b. measuring accomplishments periodically and comparing accomplishments with objectives; and
- c. reporting the results.

Discussion

Each project is required to have a system for measuring project results made up of (1) project objectives and goals stated clearly in measurable terms, quantifiable and with periodic milestones against which to measure progress; (2) a system for obtaining information on actual progress in the same measurable, quantifiable terms as stated in objectives and goals and the same time period; and (3) a comprehensive report comparing each individual objective and goal against progress and an analysis of project status.

Project objectives and goals should be stated in the Project Paper in such quantifiable, measurable terms as possible; milestones should be established and these objectives and goals critical to project success should be identified. As the project is implemented, the project may be redirected (reduced, increased or changed) for various reasons, including as a result of recommendations of a project evaluation team. Nevertheless, the reasons for any changes should be fully documented. A current statement of objectives and goals should always be readily available in quantifiable, measurable terms with milestones. Also, those goals and objectives critical to project success should be identified.

Information on actual project progress is generally obtained through project progress reporting by host government or other project officials. Mission officers should establish the requirement for such reporting as specifically as possible and make sure that complete and accurate reports are received in a timely manner. Monitoring during site visits to the project should include verification of the accuracy of these reports.

Following these steps is a comparison of each objective and goal with actual progress and an analysis of the project status including adjustment of goals and objectives and consideration of overall project success potential. The project implementation status report is then the proper forum for reporting project progress to higher level management. These reports should be as specific as possible.

These requirements are outlined in AID Handbook 3. For instance, the Handbook states that the primary responsibility for monitoring a project lies with the Project Officer to whom that project has been assigned. Knowing what a project's plan is, when activities are departing from the intended course and having the information at hand which can be used to make corrective decisions are all part of the Project Officer's monitoring responsibilities. The Handbook also states that monitoring requires the timely gathering of information regarding inputs, outputs and actions that are critical to project success and the comparison of such information with plans and schedules.

Because of the wide variety of Bureau programs and projects, an Agency-wide reporting and monitoring requirement for Missions had not been established (the only exception is the Project Implementation Status Report and USAID Controller financial reporting). It is left to individual Bureaus and Missions to establish project monitoring and portfolio oversight systems which will keep them informed as to the status of projects.

USAID/Thailand had not established a system for monitoring projects which included the measurement of project results. The only monitoring requirement the USAID had was for the quarterly preparation of the Project Implementation Report (PIR). As the only Mission measure for project results, the Project Implementation Reports for this project did not provide either sufficient detail or sufficient analyses of many of the project indicators. Different project outputs were expressed in various project documents. Collectively, the Project Paper, the Grant Agreement and the Project Implementation Letters (specifically No. 34) list 35 project indicators for project goals, objectives, and outputs. About 22 of these indicators were quantifiable for determining project progress and/or success. The outputs for the other project indicators, although not specifically quantifiable, should nevertheless be analyzed and the extent these objectives and goals are being achieved should be determined.

Only a few project indicators were being reported in the quarterly Project Implementation Reports. The latest report we reviewed (March 1985), only showed accomplishments to date for 5 of the 22 measurable indicators for the Project. Indicators, such as Flood Land Developed and Allocated, and Farm Organizations Established, were not being reported and analyzed. Exhibit 2 presents 22 measurable project indicators and shows which ones were being reported in the March 31, 1985 Project Implementation Report.

Monitoring for project results should include an analysis of data on project progress against goals and objectives and indicators determined to be relevant to those goals and objectives. Although the Project Operations Unit had been collecting some data on project progress, the USAID had not made a detailed, periodic analysis of how this data measures against all project indicators. From our review of this data, we could not determine what was supposed to be done, what had been done, or the reason for any shortfalls. Yet, this information is an essential part of project monitoring as described in AID Handbook 3.

In addition, a simple comparison of accomplishments to end-of-project targets is not sufficient in proper project monitoring. Periodic targets or milestones should be established and deviations from those targets should be analyzed and explained. Such a procedure aids project management in pinpointing problems and weaknesses in the project design and implementation.

For example, the March 31, 1985 Project Implementation Report stated that the Department of Land Development had begun construction of 16 new water resource structures (weirs and flumes). The report did not mention how many structures had been completed or the likelihood of meeting the goal of 182 completed structures. In addition, the report neither stated an annual goal for water resource structures completed, nor compared construction progress against the goal.

According to Handbook 3, it is imperative that monitoring be planned during project development, particularly if periodic data collection is envisioned. The lack of a data collection and monitoring plan for this project indicated insufficient planning during project design. For example, the Project Paper discussed monitoring arrangements for opium cultivation, but none of the reports we saw contained any information on opium cultivation. Also discussed in the Project Paper were general provisions for monitoring the Project. However, the Project Paper did not discuss how data was to be collected on project indicators. No requirements for periodic monitoring reports were included in the Project Paper.

AID Handbook 3 stipulates that project monitoring should be done on a periodic basis. A monitoring system should be developed at the time the project is designed. Such a system should include the periodic measurement of project indicators and a comparison of results with milestones. USAID/Thailand had no such monitoring system in place for measuring project results, because none was developed at the project design stage and there was no Mission requirement that such a monitoring system be developed. As a result, USAID/Thailand did not know the extent to which Mae Chaem Watershed Development Project was meeting its goals and objectives.

Management Comments

The USAID initiated a new monitoring and reporting system for the Project in November 1985. Before finalizing the reporting system, the Mission was awaiting the results of a USAID-funded study on monitoring systems for all agricultural projects. The Mission plans to finalize the project monitoring system once the study is reviewed.

Office Of Inspector General Comments

Once we review the revised project monitoring and reporting system and find that it meets the concerns mentioned in this report, we will close the recommendation.

3. There Is A Need To Update And Implement Procedures For Monitoring Project Resources

AID Handbook 3 requires the USAIDs to monitor the proper use of project resources during the project period as well as after the USAID terminates its active participation. Project managers were not monitoring the more than \$1.3 million AID-financed resources provided to this project. The USAID order on monitoring was not updated from its 1972 version, an inventory, status, locator report was not being maintained, and end-use checks were not being made to determine whether (1) resources were being effectively used, (2) the Royal Thai Government status reports were accurate, and (3) AID markings were properly displayed. In addition, no plans or procedures were available for monitoring resources after USAID withdrawal from the project. As a result, several vehicles and other equipment were unused and used ineffectively and no consideration was given to the after project use of over \$800,000 worth of AID-financed assets.

Recommendation No. 3

We recommend that USAID/Thailand revise, update, and implement its 1972 Mission Orders Nos. 1414.1 and 1414.2 on commodity status reports and disposition procedures, to conform with requirements in AID Handbooks 3 and 15. As a minimum, the USAID Order should

- a. require an inventory, status, and locator report from implementing agencies for all AID-financed commodities and resources;
- b. include specific monitoring guidance to ensure the accuracy of the commodity status reports submitted by the implementing agencies;
- c. include specific procedures to ensure a systematic approach to end-use checks, so that all or most commodities/resources will be routinely checked and that AID marking requirements are met;
- d. include specific procedures to ensure that project commodities no longer having utility or being ineffectively used, be transferred to another AID project or disposed of and the proceeds applied to project purposes; and
- e. include specific procedures for monitoring the use and final disposition of AID-financed resources after the USAID withdraws from actively supporting the Project.

Discussion

AID Handbook 3, Section 11E, requires that the Mission establish a project monitoring system which will enable the Project Officer to satisfy a number of minimum requirements, among them, to:

- a. oversee borrower/grantee compliance with AID policies, procedures and regulations;
- b. ensure the timely and coordinated provision of AID (and other) financing and/or inputs; and
- c. support the borrower/grantee's efforts regarding the effective utilization of resources and accurate forecasting of future problems.

AID project assistance agreements specify that the grantee must ensure that the commodities financed under such agreements be effectively used for the purpose for which the assistance was made available. Handbook 15 states that the USAID is responsible for the review of project progress reports to verify that commodities financed by AID are being effectively used in the project -- or if not, are transferred to other projects or otherwise disposed of as approved by the USAID.

Although Chapter 12 of Handbook 15 has been updated (the oldest portion was dated September 8, 1983), the USAID still had in force, two Mission Orders dating back to the early 1970s, which dealt with commodity end-use monitoring. USOM Order No. 1414.1, dated August 7, 1972, dealt with the "Status Of AID-Financed Commodities." The purpose of the order was to set forth policies and procedures for submission of reports regarding non-utilization or ineffective utilization of AID-financed commodities. USOM Order No. 1414.2, dated July 6, 1973, provided procedures for "Disposal Of Commodities Acquired Through AID." The purpose of this order was to establish policies and procedures in connection with the sale, transfer or other disposition action for AID project commodities identified as being unused or ineffectively used. Besides the fact that these USOM Orders were not being followed, they were out-of-date and did not address a number of issues which were in the AID Handbook.

The Handbook requires that the borrower/grantee maintain a system of records documenting the arrival and disposition of commodities financed by AID. The system must:

- identify the parties to the transaction and provide other data necessary for end-use investigations;
- provide evidence to show whether commodities were received in the quantity and condition for which payment was made; and

-- provide a record of adjustments resulting from importers' claims for loss, shortages, or damage to commodities.

The Mission Controller is responsible for certifying that the borrower/grantee's system is adequate to achieve monitoring objectives. However, the USOM orders did not mention the requirements for a borrower/grantee commodity records system. And, the USOM orders did not require the USAID Controller to certify that the borrower/grantee's system was adequate to achieve monitoring objectives.

The Handbook also states that, in negotiating project assistance agreements, AID require that project implementation plans include procedures for assuring that commodities are received and used in a timely manner. The USAID is responsible for the review of project progress reports to verify that commodities financed by AID are being effectively used in the project -- or if not, are transferred to other projects or otherwise disposed of as approved by the USAID. There was no requirement in the USOM Orders that project implementation plans include procedures for assuring the proper receipt, distribution and end-use of commodities.

Besides having out-of-date Mission Orders on project commodity status reporting, the USAID was not following its own procedures, which required monitoring to ensure that all AID loan and grant-funded resources were devoted to the project until completion. USAID guidance for commodity inspection was established in a 1972 USOM Order (No. 1414.1), the "Status of AID-Financed Commodities". The USOM Order described the Project Officers' responsibility for examining the commodity component of projects to identify unused or ineffectively used AID-financed commodities. Our discussions with USAID officials indicated that this USOM Order, although still in effect, was so old that they doubted whether it was intended to be implemented. Although end-use checks were required, we found no evidence that they were being done.

During our survey we requested an inventory listing of all project vehicles and their assigned location. A listing of project commodities, including serial numbers and locations, is essential for proper monitoring and end-use checks. The list was provided, however, it had to be specifically prepared for the audit because a list was not being maintained as required.

The Project called for construction of Project Operating Unit facilities valued at \$270,000, an Agricultural Research facility valued at \$440,000, and Agricultural Extension Centers valued at \$90,000. As of March 31, 1985, \$569,000 had been disbursed for project commodities, such as 30 vehicles, 40 motorcycles, research equipment, firefighting equipment, survey equipment, a farm tractor, mowing equipment and irrigation equipment.

During our review we found that (1) the USAID could not account for one motorcycle, (2) two vehicles may need to be reassigned because they were not being used for project purposes, (3) several vehicles did not have the required AID Handclasp emblem affixed, and (4) an \$11,000 tractor was purchased that was not needed.

USAID vehicle distribution records were short one motorcycle. Mission records showed that a total of 30 vehicles and 40 motorcycles were purchased for the project. The vehicle distribution list, provided by the USAID, accounted for all 30 vehicles but only 39 motorcycles. The distribution list was missing one motorcycle (\$1,500). USAID officials said the list was prepared in Chiang Mai and the missing motorcycle was probably just an oversight.

Ineffective use of project vehicles was also found during our review. The vehicle distribution list showed that one van (\$7,000) was transferred to Chiang Mai Teachers College for use by the college while training Interface Team members. The training of the last group of Interface Team members was completed in 1984, yet the van was still with the Chiang Mai Teachers College on May 9, 1985. Another vehicle, a 4-wheel-drive pick-up truck (\$5,800) was recently assigned to the Ministry of Agriculture and Cooperatives in Bangkok. Since the Project is located in Mae Chaem, about 400 miles from Bangkok, we believe the USAID should determine how this vehicle is furthering the interests of the project. In addition, several project-funded vehicles we inspected did not have the AID handclasp emblem affixed as required by AID regulations.

Had commodity end-use checks been in place, the USAID may have identified the excess tractor capacity which we found at a project research station. The Project procured an \$11,000 tractor for use at the Mae Chon Luang Agriculture Research Station. When we inspected the tractor, we noticed that the Research Station already had two tractors of the same size (75 hp) and capabilities. The Director of the Research Station told us that he did not need the third 75 hp tractor, but rather two small 35 hp tractors to use on the narrow terraces built on the steep slopes of the research station. The project-funded tractor was not needed.

After AID assistance ends, project resources should be used to further project objectives. This requirement is contained in the Standard Provisions of all loan and grant agreements and was included in the project grant agreement in Annex 2. The use of project commodities and facilities after the project is over should also be monitored by the USAID. The Project Paper did not discuss what would happen to the Project Operations Unit facilities after the project was over. These facilities, consisting of the main office building, a garage/warehouse, and 10 staff houses, should be used to further the project purposes after the AID assistance ends.

Since the Project Operations Unit would cease to exist at the end of the project, no one was quite sure what would happen to Project Operations Unit facilities after AID assistance ended. The Project Officials were speculating that the Royal Forest Department might take over the facilities because much of the land in the Mae Chaem watershed was under their care. The Governor of Mae Chaem (who was also the Project Director) thought the Project Operations Unit facilities might become a Department of Agricultural Extension sub-station from which they could carry-out Mae Chaem extension work. In order to avoid any misunderstandings at the end of the project and to ensure effective use of project resources, the USAID should seek to clarify the use of Project Operations Unit facilities and all of its vehicles and equipment at the end of the project.

The Mission procedures for monitoring the receipt, distribution and end-use of project commodities were out-of-date and not in full compliance with AID requirements. In addition, Mission procedures for monitoring the use of project resources, were not being followed. As a result, project resources were not being effectively and efficiently used. The USAID needs to develop and implement updated project monitoring procedures in order to correct these problems and improve controls over commodity management.

Management Comments

The USAID has updated Mission Order Numbers 1414.1 and 1414.2. The new USAID Order No. 410.4 has been sent to RIG/A for review. The Mission is in the process of reviewing the non-expendable property inventory of the Mae Chaem Project with the Royal Thai Government officials. Once that is completed, an end-use check will be done in accordance with the revised Mission Order.

Office Of Inspector General Comments

Once we review the revised USAID Order and find that it addresses our concerns, we will close the recommendation.

B. Compliance And Internal Controls

Compliance

Audit tests made during our review showed a satisfactory level of compliance. The exceptions we found were that (1) the requirement for sustainability was not being aggressively pursued, and (2) the requirement for a project results measurement system was not established (see Findings Nos. 1 and 2). Other than the conditions cited, nothing came to our attention that would indicate that untested items were not in compliance with applicable laws and regulations.

Internal Controls

Overall, financial and compliance internal controls were found to be appropriate and were operating in a satisfactory manner. However, we noted one instance of noncompliance with internal controls during our review, i.e. the Mission Orders requiring commodity end-use checks were out-of-date and not being followed (see Finding No. 3). The Mission Orders should be updated and enforced. Other tests of internal controls made during our audit indicated compliance.

AUDIT OF
MAE CHAEM WATERSHED DEVELOPMENT PROJECT
USAID/Thailand

PART III - EXHIBITS AND APPENDICES

Project Expenditures
As Of March 31, 1985

Mae Chaem Watershed Development Project

<u>Component</u>	<u>Budgeted</u>	<u>Expended</u>	<u>Pipeline</u>
Equipment & Commodities	\$ 922,000	\$ 572,416	\$ 349,584
Technical Assistance	158,000	157,031	969
Project Operations Unit & Interface Teams	1,815,397	1,182,703	632,694
Royal Thai Government Staff Support	55,710	-0-	55,710
Construction	3,331,000	853,536	2,477,464
Watershed Maint.	300,000	155,809	144,191
Credit	70,000	142	69,858
Evaluation	80,000	56,192	23,808
Contingency	167,893	-0-	167,893
Total	<u>\$6,900,000</u>	<u>\$2,977,829</u>	<u>\$3,922,171</u>

Project Indicators
As Of March 31, 1985

Mae Chaem Watershed Development Project

<u>Indicator</u>	<u>Source</u>		
	<u>PP</u>	<u>Grant</u>	<u>PIL#34</u>
Stable/increasing annual rates of forest growth per unit area	X	-	-
Decreased water discharge rates from sub-watersheds in North Thailand	X	-	-
Watershed subsistence rice self-sufficiency	X	-	-
Fall in test plot runoff and sediment yield	X	-	-
Natural vegetation ground cover steadily increasing	X	-	-
Lower volatility in water discharge at mouth of Mae Chaem River	X	-	-
Flood irrigated land developed and allocated	1200 ha	1200 ha	-
Upland fields developed ** and allocated	2300 ha	2300 ha	2520 ha
Project Operations Unit established	1	1	-
Interface Team Members	165	165	106
Farmer Organizations - Number per settlement	1	-	-
Training programs established	X	-	-
Extension program - households per agent	400	450	700
Agricultural research program established	1	1	-

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Rice banks	55	55	none
Fire control teams	8	8	7
Village Woodlots	120 ha	-	-
Road rehabilitation	** 100 km	-	93 km
Irrigation Systems	** 102	100	182
Land-use certificates issued	** -	-	4200
Rice yields per hectare:			
Lowland irrigated	-	-	3430 kg
Lowland rainfed	-	-	2843 kg
Upland rainfed	-	-	1042 kg
Average farm family income	X	-	\$ 74

** Included in March 31, 1985, Project Implementation Report

X Stated in Document with no numerical goal.

OFFICIAL MISSION COMMENTS

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ACT: AID-E INFC: AME ICM AA FCON ADB CHRCN/11/GG

VZCZCML0E53
CO RUEHML
IF RUEHOK #7E71/01 299111Z
ZNR UUUUU 22H
C 091110Z APR 86
FM AMEMEASSY BANGKOK
TO RUEHML/AMEMEASSY MANILA IMMEDIATE 8935-----8936-----
INFO RUEHC/SECSTATE WASHDC 6172
BT
UNCLAS SECTION 01 OF 02 BANGKOK 17E71

LOC: 5 765
09 APR 86 1115
CN: 03503
CHRG: AID
DIST: AID

ACTION COPY

AIDAC

Action Taken: _____

MANILA FOR RIG/A/M
AID/W FOR IG/PP AND ANE/DP/F

No action necessary: _____

F.O. 12356: N/A
SUBJECT: MAE CHAEM WATERSHED DEVELOPMENT PROJECT
(493-2294) - DRAFT AUDIT

Date: _____ Inits: _____

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1. WE WILL DIRECT OUR RESPONSE TO THE RECOMMENDATIONS ONLY.

2. A GENERAL OBSERVATION IS IN ORDER, HOWEVER. IT IS INACCURATE TO REFER TO THE PROJECT OFFICER IN THE DRAFT REPORT. THE PROJECT OFFICER WAS ON RSR DURING THE VISIT OF THE AUDITORS AND THIS FACT WAS CITED IN (85) BANGKOK 20863, SPECIFICALLY REQUESTING THAT THE AUDIT BE SCHEDULED WHILE THE PROJECT OFFICER WAS IN THAILAND.

RECOMMENDATION NO. 1 - PROJECT SUSTAINABILITY:

A. THE IF TEAMS: THE USE OF IF TEAMS IN THE PROJECT WAS INTENDED TO ASSIST VILLAGERS IDENTIFY AND RESOLVE THEIR OWN DEVELOPMENT PROBLEMS. IF TEAMS THUS HELPED IDENTIFY AND STRENGTHEN LOCAL LEADERSHIP AND ORGANIZATION WHILE INFORMING VILLAGERS OF THE BENEFITS OF EXISTING RTG SERVICE AGENCIES AND ASSISTING THEM WITH INITIAL CONTACTS WITH THESE ORGANIZATIONS (PRIMARILY HEALTH, EDUCATION AND AGRICULTURE). THE OBJECTIVE HAS ALWAYS BEEN THAT THE IF TEAMS WORK THEMSELVES OUT OF A JOB (SEE PP. P: 15). IN CERTAIN VILLAGES THEY HAVE ACCOMPLISHED THEIR OBJECTIVES WITHIN 2-3 YEARS AND HAVE BEEN TRANSFERRED TO NEW AREAS. EXPERIENCE TO DATE INDICATES THIS WILL BE A LONGER PROCESS FOR A NUMBER OF REMOTE HILLTRIBE VILLAGES LOCATED IN THE PHASE II AREA. AS A RESULT OF THIS AND OTHER PROJECT CONCERNS, THE MISSION IS CONSIDERING A NC-COST EXTENSION OF THE LIFE-OF-PROJECT TO PROVIDE SUFFICIENT TIME TO ACCOMPLISH IF WORK IN THESE VILLAGES.

DIV	ACTING
OD	<input checked="" type="checkbox"/>
E	<input type="checkbox"/>
PE	<input type="checkbox"/>
PLA	<input type="checkbox"/>
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EO	<input type="checkbox"/>
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OGD	<input type="checkbox"/>
ORAF	<input type="checkbox"/>
OPHH	<input type="checkbox"/>
OFFPVC	<input checked="" type="checkbox"/>
RIG/A	<input checked="" type="checkbox"/>
RIG/II	<input type="checkbox"/>
AR	<input type="checkbox"/>
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4-11-86	

HOWEVER, TO MAINTAIN THE IF PRESENCE INDEFINITELY

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WOULD STIFLE THE PRECISE SELF-INITIATIVE THE IF TEAMS WERE TO FOSTER AND SUSTAIN VILLAGER RELIANCE UPON THE IF TEAMS TO MAKE CONTACT WITH EXISTING RTG SERVICE AGENCIES. THIS WOULD TRULY CREATE "SUSTAINABILITY ISSUES" BY INCREASING VILLAGER DEPENDENCE UPON "OUTSIDERS" AND NOT VILLAGERS THEMSELVES.

B. EXTENSION AGENTS: WE DO NOT FEEL THAT FAILURE TO MAINTAIN THE RATIO OF EXTENSION AGENT TO FARMER PLANNED IN THE PROJECT PAPER WILL SERIOUSLY AFFECT THE LEVEL OF DEVELOPMENT IN MAE CHAEM OR THE SUSTAINABILITY OF PROJECT BENEFIT. AGRICULTURAL EXTENSION IS NOT AS SIMPLE AS A FIXED RATIO OF FARMERS TO EXTENSION OFFICERS. FIRST, IN COMPARISON WITH OTHER DISTRICTS IN THE PROVINCE, THE EXISTING EXTENSION AGENT: FARMER RATIO WILL BE APPROXIMATELY THE SAME. THEREFORE, THIS AREA WILL BE ON THE SAME FOOTING AS OTHER RURAL AREAS IN THAILAND. WHILE ONE COULD ARGUE "MCRF IS BETTER" WE STILL MUST OPERATE WITHIN RTG BUDGET CONSTRAINTS. HOWEVER, TO IMPROVE THE BENEFITS DERIVED FROM THESE EXTENSION AGENTS PROJECT PERSONNEL ARE REVIEWING THE LCAE TRAINING CURRICULA WITH A VIEW TO IMPROVING THE QUALITY. SECOND, FARMERS CAN CONTACT EXTENSION AGENTS DIRECTLY AT ONE OF FIVE CENTERS LOCATED IN EACH SUB-DISTRICT OF THE PROJECT AREA. THIRD, THE PROJECT'S INVESTMENT IN TRAINING AND INFRASTRUCTURE (ROADS AND EXTENSION CENTERS) WILL ENHANCE THE AGENT'S ABILITY TO EXTEND AGRICULTURAL TECHNOLOGY. THE INVESTMENT IN INFRASTRUCTURE HAS ALREADY INCREASED THE LEVEL OF PRIVATE SECTOR INVOLVEMENT IN BOTH MARKETING AND EXTENSION. THIS IS IMPORTANT BECAUSE THE PROJECT STAFF FEELS THAT "MARKET FORCES" AND SUCCESSFUL LOWLAND FARMERS ARE PERHAPS THE BEST EXTENSION AGENT OF ALL.

- C. ROAD MAINTENANCE: ON PAGE 13, THE COMPARISON BETWEEN FUNDS AVAILABLE FOR ROAD MAINTENANCE-FOR THE RURAL FORESTRY DEPARTMENT (RFD) AND THE ACCELERATED RURAL DEVELOPMENT (ARD) IS MISLEADING. ARD ROADS WITHIN THE MAE CHAEM ARE BUILT TO A HIGHER STANDARD (ROADBED 7.0 METERS WIDE; CEMENT LINED DRAINAGE SYSTEMS; LATERITE SURFACING) THAN THE RFD ROADS WHICH ARE ACTUALLY "ACCESS TRAILS" OR FG STANDARD ROADS. ALTHOUGH WE ARE WORKING TO INCREASE THE RFD BUDGET, OUR ENGINEERS ADVISE THAT 10LS 370 PER KILOMETER FOR MAINTENANCE OF THIS TYPE OF

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ROAD IS NOT UNREASONABLE. THIS WOULD BE AUGMENTED WITH
LOCATED VILLAGE LABOUR.

FOR DRAINAGE OF HIGHLAND ROADS IS THE MAJOR CAUSE OF
ROADSIDE DESTRUCTION. THE USAID ENGINEERS HAVE
RECOMMENDED THE USE OF MORE CULVERTS AND DRAINS (SIDE
DITCHES) TO MINIMIZE DAMAGE CAUSED BY EXCESS RUN-OFF.
MAINTENANCE CAN THEN BE ACHIEVED BY THE USE OF GRADERS
TO RE-SHAPE THE ROAD SURFACE. IT MUST BE NOTED THAT
THE FEEDER ROADS DO NOT CARRY THE VOLUME NOR THE LOAD
THAT ARE ROADS DO.

IMPROVED DRAINAGE SYSTEMS ARE ALREADY BEING CONSTRUCTED.
FY 86 BUDGET INCLUDED ADDITIONAL FUNDS FOR THIS PURPOSE.
THE FY 85 BUDGET PROVIDED FUNDS TO PROCURE A SMALL BACKHOE
FOR THE PLACEMENT OF ADDITIONAL CULVERTS AT CRITICAL
SECTIONS OF THE ROAD. FURTHERMORE, THE PROVINCIAL
GOVERNOR HAS ASSURED PROJECT OFFICIALS THAT PROVINCIAL
FUNDS WILL BE AVAILABLE TO SUPPLEMENT RFD'S MAINTENANCE
BUDGET SHOULD THE NEED ARISE AND SHOULD THE FUNDS
AVAILABLE BE INSUFFICIENT.

BASED ON THE COMMENTS ABOVE, WE SUGGEST RECOMMENDATION
NO. 1 BE LISTED AS CLOSED IN THE FINAL AUDIT REPORT.

RECOMMENDATION NO. 2 - MEASURING PROJECT RESULTS:

ON PAGE 20, IT IS NOT ACCURATE TO STATE THE INDICATORS,
SUCH AS FLOOD AND NON-FLOOD LAND DEVELOPED AND ALLOCATED,
WERE NOT BEING REPORTED IN THE FIR. THE NUMBER OF RAI
TERRACE AND THE NUMBER OF LAND USE CERTIFICATES
ISSUED HAVE BEEN REPORTED IN EACH FIR SINCE 6/30/84.
THE PROJECT OFFICER HAS DEVISED, REVISED AND TESTED A
MONITORING SYSTEM WHICH THE MISSION FEELS IS
APPROPRIATE FOR USE IN THE MAE CHAEM PROJECT AND
ISSUED TWO MEMOS EXPLAINING THE RELATIONSHIP BETWEEN
PROJECT ACTIVITIES AND PROJECT OBJECTIVES AND
EXPLAINING THE PROPOSED MONITORING AND REPORTING
SYSTEM WHICH HAS BEEN USED SINCE NOVEMBER, 1985.

BEFORE FINALIZING THE REPORTING SYSTEM, THE MISSION IS
AWAITING THE RESULTS OF A USAID-FUNDED STUDY ON
MONITORING SYSTEMS FOR ALL AGRICULTURAL PROJECTS. THE
STUDY IS SCHEDULED TO BEGIN IN THE THIRD QUARTER OF FY
86. UNTIL SUCH TIME AS THE REPORTING SYSTEM IS MODIFIED
AND APPROVED, THE PROJECT OFFICER IS UTILIZING THE
SYSTEM NOW IN PLACE.

RECOMMENDATION NO. 3 - MONITORING PROJECT RESOURCES:

THE MISSION HAS UP-DATED MISSION ORDER NO. 1414.1 AND
NO. 1414.2. COPY OF USAID ORDER NO. 410.4 PROCURED.
THE MISSION IS IN THE PROCESS OF REVIEWING THE
NON-EXPENDABLE PROPERTY INVENTORY OF THE MAE CHAEM
PROJECT WITH RTG OFFICIALS. ONCE THAT IS COMPLETED,
AN END-USE CHECK WILL BE DONE IN ACCORDANCE WITH THE
REVISED MISSION ORDER. BROWN
BT

List of RecommendationsPageRecommendation No. 1

4

We recommend that USAID/Thailand develop a strategy of alternatives in an effort to increase the likelihood of project sustainability including finding a way:

- a. for the function of Interface Teams to be assumed by others (community leaders, extension agents, etc.) or continue funding the teams until their function is taken over by others;
- b. to provide for sufficient number of extension agents to provide the necessary technical assistance to farmers; and
- c. to provide adequate funding for road maintenance.

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Recommendation No. 2

We recommend that USAID/Thailand develop and implement a system for fully measuring project results as required in Handbook 3. Such a system should include:

- a. setting goals and objectives in clear and quantifiable terms with milestones;
- b. measuring accomplishments periodically and comparing accomplishments with objectives; and
- c. reporting the results.

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Recommendation No. 3

We recommend that USAID/Thailand revise, update, and implement its 1972 Mission Orders Nos. 1414.1 and 1414.2 on commodity status reports and disposition procedures, to conform with requirements in AID Handbooks 3 and 15. As a minimum, the USAID Order should

- a. require an inventory, status, and locator report from implementing agencies for all AID-financed commodities and resources;
- b. include specific monitoring guidance to ensure the accuracy of the commodity status reports submitted by the implementing agencies;

- c. include specific procedures to ensure a systematic approach to end-use checks, so that all or most commodities/resources will be routinely checked and that AID marking requirements are met; and
- d. include specific procedures to ensure that project commodities no longer having utility or being ineffectively used, be transferred to another AID project or disposed of and the proceeds applied to project purposes.
- e. include specific procedures for monitoring the use and final disposition of AID-financed resources after the USAID withdraws from actively supporting the project.

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