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AUDIT OF GRENADA
AGRICULTURAL SECTOR REVITALIZATION
RDO/C PROJECT NO. 543-0005

AUDIT REPORT NO. 1-543-87-15
FEBRUARY 19, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT

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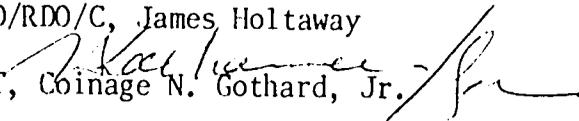
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February 19, 1987

MEMORANDUM

TO : D/USAID/RDO/C, James Holtaway

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

SUBJECT: Audit of Grenada Agricultural Sector Revitalization RDO/C
Project No. 543-0005

This report presents the results of audit of the Grenada Agricultural Sector Revitalization Project. A program results audit was made to determine if the project would attain its planned goals and objectives, AID resources were adequately accounted for, and the project was being implemented in compliance with AID regulations and the project grant agreement.

The audit showed that the project would not fully achieve its planned objectives by the extended January 31, 1987 project completion date, had not adequately accounted for project resources, and had not fully complied with project agreement provisions and AID regulations.

Specifically, the audit showed that project activities had not been adequately planned or managed, fertilizer distribution activities had not been adequately monitored or fully accounted for, counterpart contributions had not been monitored, and advances had not been liquidated promptly. Furthermore, written assurances had not been obtained from the United States Department of Agriculture's Animal and Plant Health Inspection Service that project-funded fruit fly trapping activities could lead to a United States Department of Agriculture Certification permitting the export of tropical fruits to the United States.

The report recommends that remaining project activities be effectively planned and implemented, project-funded commodities be fully accounted for, counterpart contributions be identified, and advances be promptly liquidated. The report also recommends that written assurances be obtained from the U.S. Department of Agriculture that project funded fruit fly trapping activities are being conducted in accordance with Animal and Plant Health Inspection Service approved guidelines and that, upon conclusion of the 18 month program, successful completion of the trapping program may lead to removing United States import barriers to certain fruits and vegetables.

We discussed our findings and recommendations with your staff in both Grenada and Barbados, and we submitted a draft report for review and comment. Your comments and suggestions were considered in finalizing the report.

Please advise us within 30 days of any additional information relating to actions planned or taken to implement the recommendations. We appreciate the cooperation and courtesy extended our staff during the audit.

EXECUTIVE SUMMARY

Following the joint intervention in Grenada in October 1983, AID established an office there to work directly with the then interim government. Between October 1983 and August 1986 AID approved 25 grant projects totaling \$81 million aimed at revitalizing the island's sagging economy. Among these, was the Grenada Agricultural Sector Revitalization Project (543-0005) which was funded under a \$1.964 million Economic Support Fund grant on August 1, 1984 for the purpose of restoring Grenada's once thriving private sector agricultural industry. The multi-faceted project was to help strengthen the Ministry of Agriculture with technical assistance, establish a fund to facilitate the transfer of farms from state ownership, create a pest control unit within the Ministry of Agriculture and rehabilitate a central market facility. The original project assistance completion date of January 31, 1986 was extended one year to January 31, 1987 and will have to be extended again if ongoing and planned activities are to be completed.

A program results audit was made to determine whether the project would attain its planned goals and objectives, AID resources were adequately accounted for, and the project was implemented in compliance with AID regulations and the project grant agreement.

The audit showed that the project would not fully achieve its planned objectives by the extended January 31, 1987 project completion date, had not adequately accounted for project resources, and had not fully complied with project agreement provisions and AID regulations.

Nevertheless, the project had resulted in assisting the Grenadan Ministry of Agriculture with initial stages of agriculture sector reforms, strengthening pest control activities, rehabilitating an aging agriculture market facility, and establishing a temporary fund to improve farm soil and drainage conditions.

The audit showed that project activities had not been adequately planned or managed, fertilizer distribution activities had not been adequately monitored or fully accounted for, counterpart contributions had not been monitored, and advances had not been promptly liquidated. Furthermore, the Regional Development Office/Caribbean-Grenada had not obtained written assurances from the United States Department of Agriculture's Animal and Plant Health Inspection Service that project-funded fruit fly trapping activities could lead to a United States Department of Agriculture Certification permitting the export of tropical fruits to the United States.

Project activities had continued longer than expected and had had less of an impact than originally anticipated. The initially planned 18-month project was designed to produce tangible benefits quickly. Given this objective, close project management became essential. AID regulations stress the importance of project management to ensure that objectives are achieved in a timely manner and that AID funds are used effectively. Among other management tools, AID Handbook guidance emphasizes the importance of implementation plans to assist project managers in efficiently and effectively carrying out project activities.

Contributing to project delays and reduced benefits were inadequate monitoring and the failure to update implementation plans to reflect changed conditions and to ensure the effective use of project obligations. As a result, the project completion date was extended by one year and will have to be extended again if ongoing and planned activities are to be completed. In addition, approximately \$490,000 (25 percent) in project obligations may be in excess of project needs. We recommended that an implementation plan be developed for the remaining project activities and that excess project funds be rebudgeted and/or deobligated. The Mission generally agreed with the recommendation and had taken action to update the project's work plan and estimate remaining funding requirements.

AID purchased and shipped 1,323 tons of bagged chemical fertilizer to Grenada in November 1984 with a value of \$413,166. The Regional Development Office/Caribbean-Grenada had exercised inadequate oversight of fertilizer distribution and utilization activities. AID regulations hold AID project officers responsible for ensuring the effective use of AID-funded resources. Because of unsettled conditions at the time, the Regional Development Office/Caribbean-Grenada failed to provide adequate oversight or establish an effective reporting system that would have better ensured the safe-keeping and proper use of AID funded resources. Consequently, AID did not promptly learn of missing fertilizer and was unaware of how the remainder had been distributed. As a result, there was a shortfall of over \$18,000 in the special soil conservation fund established with fertilizer sale proceeds to provide grants to farmers for soil and drainage improvements. We recommended that project fertilizer activities be evaluated and reconciled. The Mission agreed with the finding and had taken action to implement the recommendation.

As of November 26, 1986 Government of Grenada project counterpart contributions had not been identified or quantified. The project agreement provided that the Ministry of Agriculture would contribute not less than \$355,000 towards accomplishing project objectives. AID regulations require that AID/Missions monitor local support contributions to ensure, among other things, compliance with grant agreement provisions and the timely completion of project activities. Lack of counterpart contribution information stems from Regional Development Office/Caribbean-Grenada's failure to monitor local contributions and require government entities to routinely provide such information. This deficiency was not confined to this project. As a result, the Regional Development Office/Caribbean-Grenada did not know the extent to which the Government of Grenada was complying with its counterpart contribution obligations on this or several other projects with similar counterpart support provisions. Without this information Regional Development Office/Caribbean-Grenada had little basis for knowing if project activities would be accomplished as planned. We recommended that Government of Grenada counterpart contributions be reported and updated on a periodic basis. The Mission agreed that it did not track counterpart contributions, but noted that it had taken action to implement the recommendation.

Office of the Inspector General

AUDIT OF GRENADA
AGRICULTURAL SECTOR REVITALIZATION PROJECT

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AUDIT OF GRENADA
AGRICULTURAL SECTOR REVITALIZATION PROJECT

PART I - INTRODUCTION

A. Background

Grenada is the southernmost of the Windward Islands, located approximately 100 miles off the northern coast of Venezuela. The island, with a population of about 110,000 and an area of only about 133 square miles, gained independence from Great Britain in 1974. Previously known for its picture-sque scenery and production of cocoa, nutmeg and other spices, Grenada drew worldwide attention in October 1983 when United States and Caribbean island armed forces intervened to restore peace and order in the aftermath of serious civil disturbances.

Following the joint intervention, AID established an office in Grenada to work directly with the then interim government. Between October 1983 and August 1986 AID approved 25 grant projects totaling \$81 million aimed at revitalizing the island's sagging economy. Among these was the Agricultural Sector Revitalization Project (543-0005), authorized on July 23, 1984 for the purpose of restoring Grenada's once thriving private sector agricultural industry, which had deteriorated under the policies of the previous socialist-oriented regime.

On August 1, 1984 the Regional Development Office/Caribbean-Grenada signed a \$1.964 million Economic Support Fund grant agreement with the Government of Grenada (GOG) to (1) help strengthen the Ministry of Agriculture (MOA) with technical assistance, (2) establish a fund to facilitate the transfer of certain farms from state ownership, (3) acquire 1,323 tons of fertilizer for banana and cocoa farmers, (4) create a pest control unit within the MOA and (5) rehabilitate the central market facility in the country's capital - St. George's. The GOG was to contribute \$355,000 "in-kind" support to the project. The original project completion date of January 31, 1986 had been extended to January 31, 1987 ^{1/}. As of September 30, 1986, about \$ 1 million in AID funds had been disbursed. GOG counterpart contributions could not be fully identified.

In June 1985, responsibility for Grenada Controller functions was transferred to AID's Regional Development Office/Caribbean (RDO/C) in Bridgetown, Barbados. In addition, beginning with fiscal year 1986, responsibility for all Grenada program budget allotments was transferred to RDO/C, further reducing the relative autonomy the Grenada program and AID staff there had exercised immediately after the intervention.

^{1/} On November 6, 1986 the Associate Director, Grenada requested the Director, RDO/C to approve a 10-month extension of the project completion date from January 31, 1987 to December 1, 1987. As of November 26, 1986 the Mission Director had not taken final action on this request, although its approval was expected.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa, Honduras conducted a program results audit of the Grenada Agricultural Sector Revitalization Project during the period October 20, 1986 to November 28, 1986. The audit objectives were to determine if: (1) the project would attain its planned goals and objectives, (2) AID resources were adequately accounted for, and (3) the project was being implemented in compliance with AID regulations and the project grant agreement. Where project deficiencies were disclosed, applicable internal controls were examined. The audit covered some \$1 million in AID project disbursements from August 1, 1984 to September 30, 1986. GOG Counterpart contributions could not be verified as neither the implementing agency nor the Mission had quantified these amounts.

To accomplish the audit objectives, project files, records and other pertinent data were reviewed, and RDO/C officials in Bridgetown, Grenada, and officials at the Ministry of Agriculture and two private agriculture associations were interviewed. Discussions were also held with three consultants providing technical assistance under the project. In addition, field visits were made to various project-supported development activities including three farms under the GOG's model farm program, a laboratory and related activities in support of the GOG's pest control program, and a rehabilitated central market. The audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

The audit showed that the project would not fully achieve its planned objectives by the extended January 31, 1987 project completion date, had not adequately accounted for project resources, and had not fully complied with project agreement provisions and AID regulations.

Nevertheless, the project had resulted in assisting the Grenadan Ministry of Agriculture (MOA) with initial stages of agriculture sector reforms, strengthening pest control activities, rehabilitating an aging agriculture market facility, and establishing a temporary fund to improve farm soil and drainage conditions.

Specifically, the audit showed that project (1) activities had not been adequately planned or managed, (2) fertilizer distribution activities had not been adequately monitored or fully accounted for, (3) counterpart contributions had not been monitored, and (4) advances had not been liquidated promptly. Furthermore, RDO/C-Grenada had not obtained written assurances from the United States Department of Agriculture's Animal and Plant Health Inspection Service that project-funded fruit fly trapping activities could lead to a United States Department of Agriculture Certification permitting the export of tropical fruits to the United States.

The report recommends that RDO/C-Grenada ensure that remaining project activities are effectively planned and implemented, project-funded commodities are fully accounted for, counterpart contributions are identified, and advances are promptly liquidated. The report also recommends that RDO/C-Grenada obtain written assurances from the U.S. Department of Agriculture that project funded fruit fly trapping activities are being conducted in accordance with Animal and Plant Health Inspection Service approved guidelines and that, upon conclusion of the 18 month program, successful completion of the trapping program may lead to removing United States import barriers to certain fruits and vegetables.

A. Findings and Recommendations

1. Closer Management Attention Could Have Enhanced Project Impact

Project activities had continued longer than expected and had had less of an impact than originally anticipated. The initially planned 18-month project was designed to produce tangible benefits quickly. Given this objective, close project management became essential. AID regulations stress the importance of project management to ensure that objectives are achieved in a timely manner and that AID funds are used effectively. Among other management tools, AID Handbook guidance emphasizes the importance of implementation plans to assist project managers in efficiently and effectively carrying out project activities. Contributing to project delays and reduced benefits were inadequate monitoring and the failure to update implementation plans to reflect changed conditions and to ensure the effective use of project obligations. As a result, the project completion date was extended by one year and will have to be extended again if ongoing and planned activities are to be completed. In addition, approximately \$490,000 (25 percent) in project obligations may be in excess of project needs.

Recommendation No. 1

We recommend that, if the project assistance completion date is extended, USAID/RDO/C-Grenada, in consultation with the Ministry of Agriculture:

- (a) identify remaining essential project activities,
- (b) establish an implementation plan for those activities to include costs and implementation time frames, and
- (c) rebudget and/or deobligate/reobligate excess obligations.

Discussion

The project had progressed at a slower rate than originally planned. All of the project's components had experienced delays in implementation at the time of our audit, and only two of the five project components -- fertilizer distribution and market rehabilitation -- had been completed. Both these components had experienced considerable implementation problems and the envisioned impact on revitalizing Grenada's agriculture sector was less than planned. For example, the fertilizer component was to increase the 1985 cocoa and banana yields over 1984 yields by 20 percent and 25 percent respectively. Based on Cocoa and Banana Association figures, the 1985 cocoa and banana production levels were about the same as 1984 and it was anticipated that the 1986 production levels for the two crops would actually be lower than the 1985 figures. The market rehabilitation component took more than a year longer to complete than anticipated and exceeded the original AID budget of \$124,000 by \$34,000 or 27 percent. Other than providing temporary employment opportunities the activity had no measurable impact on revitalizing Grenada's Agriculture Sector. Activities under the remaining three project components -- technical assistance, divestiture fund and pest control unit -- had not been completed and could not be fully completed unless the project assistance completion date were to be extended beyond the current January 31, 1987 date.

This 18-month project was intended to yield quick and visible results in order to demonstrate, before the December 1984 national elections, United States and GOG commitment to agriculture reform. Mission management stated they had been under pressure after the intervention to provide high impact activities for the purpose of putting people to work and increasing productivity. Given this situation, close project management became extremely important. AID regulations stress the importance of project management to achieve project objectives in an efficient and effective manner. The regulations further emphasize the usefulness of updating implementation plans (See AID Handbook 3, and especially Chapter 11) to guide project activities, and to better ensure that time frames are met and resources are effectively used.

Project implementation was extremely slow during the first year, in part, because of limited USAID project oversight. The project's design envisioned a full-time agriculture development officer to provide essential management oversight and monitoring for the duration of the project. The general project officer assigned initial management responsibility considered this crucial to completing project objectives within the planned time frame of 18 months. However, when the project agreement was signed, no full-time agriculture officer was assigned to manage the project. A full-time agriculture project officer was not assigned to the USAID Grenada office until July 1985, 11 months after project funds were obligated. In the meantime, project management responsibilities were shared by a general project officer in Grenada and the chief of the Agriculture Division at RDO/C in Bridgetown, Barbados. Project officials stated that, in retrospect, not assigning a full-time technical project officer at the project's outset had been a poor decision. For example, they agreed that many of the problems associated with the project's fertilizer component were directly related to inadequate management oversight (see Finding No. 2).

However, Mission officials also stated that the project's original time frames were extremely optimistic and would have been difficult to achieve under the best of circumstances, let alone in a country whose government was in the midst of major social reform. USAID officials revised the project's timeframes and corrected certain project design problems in the fertilizer and divestiture components in an appropriate manner. Nevertheless, project implementation continued to be slow.

Contributing to the project's continued slow progress was the lack of an updated plan to guide all project participants in their implementation responsibilities. The original project paper contained a general implementation plan which listed project activity timeframes. However, there was no evidence that this plan had been used or updated to reflect changed project conditions. The development and updating of a detailed implementation plan would have helped minimize the impact of other obstacles to project progress. For example, an updated implementation plan could have been useful in offsetting the effects of GOG budgetary and management problems. These problems were especially visible in GOG's Model Farm Program. The Model Farm Program, which was partially funded from the project's divestiture fund component, was designed to transfer 18 government-owned estates to private farmers at the end of three years. The project was to help develop nine estates which had no claims

against them. With only two months remaining in the project, limited progress had been made in preparing the model farms for transfer or settlement. As of November 25, 1986 no farms had been turned over to private farmers and it was uncertain that more than one estate would be ready for settlers by the project's January 31, 1987 completion date. Updating implementation plans to reflect GOG budgetary and management problems might have resulted in minimizing their impact on implementing project activities. In addition, updating implementation plans would have better ensured the effective use of project obligations.

Excess project obligations had not been identified and effectively managed. This was especially apparent in the three on-going project components. Implementation delays and changed conditions had resulted in approximately \$290,000 (21 percent of the total for these three components) not being used as follows:

- The technical assistance contract provided for two resident technical advisors for 18 months. However, only one of the two long-term advisors had been with the project for the entire project period. The other left after nine months. This and over-budgeting in other technical assistance categories, resulted in approximately \$130,000 in excess obligations.
- Model farm development expenditures had not occurred as planned. Internal roads and other activities planned for the Bocage, Perchier, and Paradise estates had either been eliminated or not started due to the onset of the rainy season in Grenada, while planned feeder road activities at Bocage, Samaritan and Belle Vue had also been eliminated or not started. An estimated \$89,000 will not be expended as planned on this activity.
- Expenditures had not been made as planned on Pest Management Unit activities. As at September 30, 1986 there had been approximately \$102,000 remaining to be spent in this activity. However, it appeared that only \$31,000 would be used by the end of the current project assistance completion date. As a result an estimated \$71,000 was in excess of project needs.

In addition to the above \$290,000 in excess obligations, an additional \$200,000 in project funds had not been earmarked. These obligations should have been deobligated in accordance with AID Handbook 3, Chapter 13D8 which provides that, when funds authorized and obligated for the life of the project exceed the amount actually required, actions should be taken to deobligate and/or rebudget such funds.

As a result of management weaknesses, project activities had not been efficiently and effectively implemented. The project completion date had to be extended once and will have to be extended again to complete ongoing and planned activities. Completed fertilizer and market rehabilitation activities had not resulted in substantially benefiting Grenada's agricultural sector, and an estimated \$490,000 in project obligations had not been effectively programmed.

Project implementation requires appropriate management oversight to ensure project activities are implemented in a timely and effective manner. RDO/C-Grenada and Bridgetown failed to provide adequate management oversight which contributed to implementation delays, reduced benefits, and excess funds.

Management Comments

USAID/RDO/C stated it had extended the project assistance completion date 10 months to December 1, 1987, in order to accomplish remaining project activities. These activities were identified in a revised work plan with estimated costs. All unexpended project funds identified in the report will be required to complete the planned activities.

USAID/RDO/C stated that many of the implementation issues discussed in the report could be attributed to inadequate and hurried design rather than mismanagement. In fact, Mission officials stated that good management was often responsible for overcoming some design problems and cited examples in their official response to the draft report, (see Appendix A).

Inspector General Comments

The actions taken by the Mission to implement the recommendation appear adequate. However, before the recommendation can be closed the Mission needs to provide evidence that the Mission Director has in fact approved the project's 10-month extension and that the Government of Grenada has approved the revised project plan. Changes were made in the report based on comments provided by the Mission.

2. Fertilizer Distribution Needed to Be Evaluated and Reconciled

AID purchased and shipped 1,323 tons of bagged chemical fertilizer to Grenada in November 1984 with a value of \$413,166. The RDO/C-Grenada had exercised inadequate oversight of fertilizer distribution and utilization activities. AID regulations hold AID project officers responsible for ensuring the effective use of AID-funded resources. Because of unsettled conditions at the time, the RDO/C-Grenada failed to provide adequate oversight or establish an effective reporting system that would have better ensured the safe-keeping and proper use of AID funded resources. Consequently, RDO/C-Grenada did not promptly learn of missing fertilizer and was unaware of how the remainder had been distributed. As a result, there was a shortfall of over \$18,000 in the special soil conservation fund established with fertilizer sale proceeds to provide grants to farmers for soil and drainage improvements.

Recommendation No. 2

We recommend that the Regional Development Office/Caribbean-Grenada issue project implementation letter(s) to request the Ministry of Agriculture to:

(a) Submit a detailed final report fully accounting for all AID-funded fertilizer distributed by the Grenada Cocoa and Grenada Banana Cooperative Associations. (This report should identify the total number of bags received and unit price paid by each fertilizer recipient, and should also describe the actions to be taken by the Regional Development Office/Caribbean-Grenada and the Ministry to ensure that proper restitution is made for incorrect fertilizer transactions. This should include, for example, the Government of Grenada restoring to the soil conservation fund the difference between actual fertilizer cost and the subsidized price the Grenada Farms Corporation paid the Banana association for project fertilizer.)

(b) Initiate an investigation of the missing fertilizer estimated at 4,192 bags worth \$74,427, and report its findings to USAID and, if necessary, to the appropriate local authorities. (If this investigation does not recover the missing commodities or their equivalent market value, then the Ministry along with the two associations responsible for safeguarding the fertilizer should restore to the soil conservation fund an amount equal to what would have been deposited if the missing fertilizer had been sold to eligible growers at the established price of US\$4.46 per bag.)

(c) Submit a detailed periodic report on the status of soil conservation activities until the special fund has been liquidated.

Discussion

RDO/C-Grenada did not ensure the effective use of AID financed commodities. Under the project nearly 1,323 tons of fertilizer, valued at \$413,166 including shipping costs, were procured with AID grant funds for the purpose of quickly improving private cocoa and banana farmer yields. During project implementation, approximately 231 tons of

fertilizer (18 percent of the total) valued at \$74,427 disappeared. Of the total missing fertilizer, 215 tons (3,904 110 lb. bags) destined for Grenada banana growers disappeared from a Government of Grenada warehouse while 16 tons (288 110 lb. bags) scheduled for Grenada cocoa growers disappeared during transit to Grenada Cocoa Association warehouses. As a result of these disappearances a shortfall of over \$18,000 to the special soil conservation fund was realized. The fund was established with fertilizer sale proceeds for the purpose of making grants to cocoa and banana farmers for soil and drainage improvements.

In addition, not all remaining quantities were distributed in accordance with project agreement provisions. For example, according to a Banana Cooperative Society official, 900 bags of project fertilizer were sold to Grenada Farm Corporation (GFC) estates. The GFC was a government corporation responsible for managing state owned lands. Project officials stated that the AID funded fertilizer was not meant to benefit state-run farms. This prohibition was well documented. For example, in an April 25, 1985 implementation letter concerning a cocoa fertilizer distribution proposal, RDO/C-Grenada stated that it concurred with the cocoa grower's proposal provided that, among other things, "Grenada State Farms will not be a beneficiary under this activity." As a result of the sale to the GFC, less subsidized fertilizer was available for intended beneficiaries-- the private farmers. In our opinion, the government should reimburse the soil conservation fund by an amount equivalent to the difference between the fertilizer's subsidized price and its actual costs. For the 900 bags affected by this transaction, this would be about \$12,000.

In addition, it appeared that some private growers may have unduly benefited from AID-funded fertilizer because of inadequate controls and/or because the distribution guidelines were not consistently followed by the two associations. A sample review of cocoa association records disclosed that one large cocoa grower purchased 300 bags of project fertilizer in June 1985 even though a 200 bag limit had been established. This farmer may have already received project fertilizer as records showed that 608 bags had been delivered at the project's outset to the farmer's warehouse. It is unclear, however, whether or not the farmer used any of the original fertilizer allotment or merely provided storage space for the GCA. This same farmer also purchased banana fertilizer through that association ^{2/}. A sample review of the banana growers' association records disclosed the farmer had purchased 183 bags of AID-financed fertilizer in January 1985.

^{2/} Mixed-crop farming is common in Grenada. As a result, it is not unusual for farmers to belong to more than one agriculture association.

AID Handbook Nos. 3 and 15 hold the AID Missions responsible for monitoring project activities and for ensuring the effective use of AID-funded resources. RDO/C-Grenada failed to adequately monitor project fertilizer activities. Lack of a full-time agriculture project manager during project fertilizer distribution and the Mission's failure to require the MOA to submit appropriate reports contributed to the Mission's limited awareness of fertilizer activities. It was not until March 1986, about seven months after the arrival of a full-time agriculture project officer, that it became known that some GBCS designated project fertilizer had disappeared. During the subsequent months the project manager had investigated the missing banana fertilizer and had consulted with RDO/C officials and the AID Regional Legal Advisor on possible corrective actions. However, mission records contained no evidence that AID officials were aware that some cocoa fertilizer had also disappeared or that project fertilizer had not been distributed in compliance with distribution agreements.

Mission and MOA officials agreed that project fertilizer activities had been poorly managed. RDO/C-Grenada officials stated that the absence of a full-time agriculture project officer during the first year of project implementation had limited the Mission's ability to physically inspect fertilizer receipt, storage and distribution. Ministry officials stated that they relied primarily on the two associations to implement the fertilizer project component in accordance with the provisions in agreements the MOA had signed with the two associations. The MOA did not make physical inspections of fertilizer stocks or the associations' fertilizer records, nor had it required the associations to periodically report the status of fertilizer activities. Ministry officials stated that they had no knowledge of missing project fertilizer until mid-1986 when the associations were requested to deposit fertilizer sale proceeds into a special soil conservation fund. Lower than anticipated deposits raised questions that led to the discovery that some project fertilizer had disappeared. Both Mission and MOA officials agreed that a full accounting was needed for all completed project fertilizer distribution activities as well as for current soil conservation and drainage activities being funded from fertilizer sale proceeds.

The failure to closely monitor project activities prevented the Mission from taking action in a timely manner to minimize fertilizer losses and to ensure appropriate distribution of AID-funded commodities. As a result, a shortfall in special soil conservation fund deposits was realized.

Management Comments

USAID/RDO/C agreed with the finding and recommendation and submitted copies of implementation letters that it had sent to the Ministry of Agriculture to implement the recommendation.

Inspector General Comments

The Mission has provided adequate evidence that it has satisfactorily implemented part (c) of the recommendation. The remaining parts, (a) and (b), can be closed upon evidence that the Ministry of Agriculture has

completed its investigations and satisfactorily reported its findings on the disposition of the AID funded fertilizer along with recoveries obtained for incorrect fertilizer transactions and fertilizer losses due to inadequate management oversight. In addition, the Mission needs to submit a copy of the signed implementation letter (No. 34) requesting the Ministry of Agriculture to investigate the missing fertilizer.

3. Host Country Counterpart Contributions Had Not Been Monitored

As of November 26, 1986, GOG project counterpart contributions had not been identified or quantified. The project agreement provided that the MOA would contribute not less than \$355,000 towards accomplishing project objectives. AID regulations require that AID/Missions monitor local support contributions to ensure, among other things, compliance with grant agreement provisions and the timely completion of project activities. Lack of counterpart contribution information stems from RDO/C-Grenada's failure to monitor local contributions and require the GOG to routinely provide such information. This deficiency was not confined to this project. As a result, RDO/C-Grenada did not know the extent to which the GOG was complying with its counterpart contribution obligations on this or several other projects with similar counterpart support provisions. Without this information RDO/C-Grenada had little basis for knowing if project activities would be accomplished as planned.

Recommendation No. 3

We recommend that RDO/C-Grenada obtain from appropriate Government of Grenada entities, through project implementation letters or equivalent documents, a report summarizing their contributions to AID projects by element, as of September 30, 1986 and updates of this information on a quarterly basis for the remainder of all AID projects in Grenada containing a Government of Grenada counterpart support obligation.

Discussion

Inspector General auditors were not able to determine to what extent MOA resources had been contributed toward accomplishing project objectives. The MOA had supported project activities by providing, among other things, office space and supplies, personnel costs, and construction equipment and materials. The extent of these contributions, however, had not been fully identified or quantified.

The project agreement provided that the MOA would contribute not less than \$355,000, including costs borne on an "in-kind" basis, towards accomplishing project objectives. The project agreement further subdivided the planned GOG total counterpart contribution by the project's components. AID regulations require that USAID/Missions monitor project activities to ensure compliance with project agreement provisions including counterpart contribution commitments.

RDO/C-Grenada had not, as a matter of practice, monitored GOG compliance with local project support obligations to any of the five projects in its portfolio with specific counterpart contribution commitments. These commitments totaled \$2.5 million. Mission officials stated that counterpart contributions were not required for Economic Support Funded Projects, although contributions were encouraged. Mission officials stated that GOG budgetary constraints precluded cash contributions to projects and therefore all counterpart support was on an "in-kind" basis. Quantifying these costs was not always easy. For example, under the Agricultural Revitalization Project, the Mission was aware that the

MOA provided: offices and supplies for the resident technical advisors, construction equipment and materials for model farm development, and administrative and other support for the pest management unit. Mission officials stated they did not feel it was necessary to require the MOA to quantify and report these costs. We disagree and have recently issued a regionwide report (No. 1-500-87-07) on this subject whose recommendations have been supported by AA/LAC.

This issue, not monitoring counterpart contributions, was also a deficiency discussed in an earlier AID Inspector General audit report, No. 1-538-85-9 on RDO/C selected agriculture projects. This July 1985 report recommended that "RDO/C obtain from its borrowers/grantees periodic reports on their contributions to projects, and that project officers review these reports for reasonableness and determine whether or not counterpart contribution requirements are being met." RDO/C had not yet satisfactorily implemented this recommendation.

As a result of not tracking counterpart contributions, the Mission had no assurance that the GOG had or would fully comply with the grant agreement counterpart contribution provision. Furthermore, without this information the Mission had one less indicator from which to gauge project progress and to identify potential problems.

Management Comments

RDO/C agreed that it had not monitored Government of Grenada counterpart contributions to its Agriculture Sector Revitalization Project. In accordance with this report recommendation, the Mission submitted an implementation letter to the Ministry of Agriculture requesting that this information be provided and periodically updated for this project.

Inspector General Comments

The Mission has taken appropriate action to satisfy the report recommendation as it pertains to the Agriculture Sector Revitalization project. However, as the report discussed, the Mission had not monitored the counterpart contributions on any of its projects with the Government of Grenada with such support commitments. The report, therefore recommended that the Mission, through project implementation letters or equivalent documents, obtain counterpart contribution information on all AID projects with Government of Grenada counterpart support obligations. This recommendation will be closed upon receipt of evidence that the Government of Grenada has provided this information for the Agriculture Sector Revitalization and the other AID projects with specific counterpart contribution commitments.

4. Advances Had Not Been Liquidated Promptly

The MOA had not promptly liquidated project advances. In accordance with AID regulations, advances should not remain outstanding for more than 30 days, or not to exceed 90 days if the Mission has made a formal determination to this effect. However, \$28,913 in advances made to the MOA in support of model farm development and pest management unit activities had remained outstanding for about six months. This occurred because MOA construction and other activities had not been implemented as quickly as expected and because MOA had not submitted vouchers in a timely manner. As a result, unnecessary U.S. Government interest costs may have been incurred while advances remained outstanding.

Recommendation No. 4

We recommend that RDO/C-Grenada obtain Ministry of Agriculture submissions of expense vouchers promptly, and the return of advanced funds which exceed 90 days' requirements.

Discussion

Under this project the MOA was advanced \$81,355 to perform various activities under two project components - pest management (\$57,101) and model farm development (\$24,254). As of November 26, 1986, \$28,913, or 36 percent of the total advances, had remained outstanding for nearly six months.

Advances held by the implementing agency in excess of 90 days' requirements violate the provisions of AID Handbook 1, Supplement B, page 15-8, Section (c) which states that advances should be based on an analysis of cash requirements and limited to the minimum amount needed for immediate disbursing needs. This period is normally 30 days, however it can be extended to 90 days if it is determined that project implementation would be interrupted or impeded by applying the 30 day maximum.

Mission and MOA officials stated that the advanced funds had been required for project activities, but that the MOA had merely not submitted vouchers promptly. In contrast, Mission financial records showed that a \$24,254 advance made in May 1986 from the project's divestiture fund component, for use in developing model farms, had not been utilized. Mission officials stated that work had been performed, although less than planned, by the MOA with these funds but vouchers for the work had only recently been submitted. MOA officials had been advised of the Mission's concern and stated that vouchers would be submitted in a more timely manner in the future.

Because advanced funds may not have been used as promptly as planned, the U.S. Government may have incurred unnecessary interest costs of about \$850.

The prompt submission of vouchers to liquidate advances is necessary to demonstrate that funds are being used as intended and in a timely manner. Without this documentation, AID had no assurance that project funds were being used effectively and/or even required.

Management Comments

RDO/C agreed that the Ministry of Agriculture initially had an advance of funds which exceeded AID's 90 day requirement. The Mission provided evidence that this situation had been corrected through the submission of project expense vouchers. In addition, the Mission had advised the Ministry of Agriculture through an implementation letter that future requests for advances would not be processed for payment in excess of expenditures projected over a ninety-day period. The Mission submitted a formal determination made by the AID associate Director in Grenada that a cash advance for up to 90 days was required for orderly project implementations.

Inspector General Comments

The Mission has provided adequate evidence that it has satisfactorily implemented the recommendation. Accordingly, the recommendation is closed with the issuance of the final report.

5. Fruit Fly Trapping Activities Were Not Adequately Documented

Project funds were committed to fruit fly trapping activities without adequate assurances that trapping activities could be completed or that the program's results could be used to enhance Grenada's efforts to expand its fruit and vegetable exports. AID regulations place primary responsibility on project officers to ensure that project resources are used effectively. The RDO/C-Grenada project officer, however, did not ensure before committing project funds that the overall project assistance date would be extended to accommodate the 18-month trapping project. Nor did he ensure that the trapping results would be accepted by the United States Department of Agriculture's Animal and Plant Health Inspection Service (APHIS), the agency which regulates the conditions under which foreign produce may be exported to the United States. As a result of not obtaining these assurances, the success of AID's \$125,000 investment in fruit fly trapping activities remains doubtful.

Recommendation No. 5

We recommend that, if the Grenada Agricultural Revitalization Project assistance completion date is extended, RDO/C-Grenada obtain, as a condition to continued funding of the fruit fly program beyond March 31, 1987, a signed Memorandum of Understanding or other written assurance that USDA's Animal and Plant Health Inspection Service formally sanctions the trapping program and that its results would be used to further Grenada's efforts to export certain fruits and vegetables to the United States.

Discussion

The Pest Management Unit of the Ministry of Agriculture had undertaken a fruit fly trapping program under the auspices of the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) to determine the existence or non-existence of fruit flies in Grenada. This activity, budgeted at \$125,000, was started in April 1986 and was being funded under the Agricultural Revitalization Project's Pest Management Unit. Depending on the results of the planned 18-month program, Grenada could possibly obtain certification that the island is fruit-fly-free, which could then facilitate the export of certain fruits and vegetables to the United States and bring in much needed foreign exchange.

A Memorandum of Understanding (MOU) between the MOA and APHIS was prepared detailing the terms and conditions of the 18-month trapping program. The MOU was prepared for the purpose of documenting the trapping program and to obtain assurances from APHIS that, upon completion of the AID-funded activity, APHIS would assess its impact on Grenada's efforts to export certain fruits and vegetables to the United States.

The Ministry approved the MOU in August 1985 and began full-scale trapping activities in April 1986. In the meantime, however, RDO/C-Grenada had not obtained a signed MOU from APHIS indicating USDA's

official agreement with the project activity or its willingness to assess trapping results in connection with Grenada's efforts to increase agriculture exports to the United States.

As of November 26, 1986 neither the Mission nor the Ministry had received a signed Memorandum of Understanding or other formal document from APHIS providing assurances that the Grenada fruit fly trapping program was sanctioned by APHIS. Mission officials stated that there was no doubt that APHIS was fully cognizant of the trapping program and that it had approved its 18-month design. Mission officials stated, however, that APHIS was hesitant to commit anything in writing or otherwise give the impression to a foreign government that the trapping program would definitely lead to the United States' acceptance of certain fruits and vegetables from Grenada.

In retrospect, Mission officials stated that the activity should not have been funded until APHIS had signed the MOU or provided some other written evidence of their involvement in the project. However, with six months already invested in trapping activities, Mission officials were reluctant to terminate this activity even though continuance would require extending the project completion date beyond the already extended January 31, 1987 date. Mission officials added that some form of written acknowledgment from APHIS was anticipated in the near future and that it was expected that RDO/C would extend the project completion date to allow for completion of the 18-month trapping program.

Committing project funds to activities which cannot be completed before the current project completion date or without firm assurance that their end-results would be used as intended reflects poor management judgment and could lead to an embarrassing situation between AID and the GOG. Even if the current project assistance completion date was extended to allow completion of trapping activities, Mission officials would still have no assurance that the 18-month trapping program was cost-effective unless some formal acknowledgement was obtained from APHIS that the results would be used to further Grenada's efforts to export certain fruits and vegetables to the United States.

Management Comments

USAID/RDO/C agreed with the finding and recommendation. In December 1986, the Mission received cabled assurances from the U.S. Animal and Plant Health Inspection Service representative stationed in the Dominican Republic that APHIS would meet all commitments made in the Memorandum of Understanding between it and the Grenada Ministry of Agriculture. The representative also stated that APHIS Washington officials were attempting to locate the memorandum. The Mission requested that the recommendation be closed based on the assurances provided by the APHIS representative in the Dominican Republic.

Inspector General Comments

The information provided by the Mission indicates that the Memorandum of Understanding may have never been reviewed by the appropriate Washington officials. This possibility raises further doubts as to the impact this 18-month trapping program will have on facilitating the export of certain fruits and vegetables to the United States. This recommendation will be closed upon receipt of evidence that the subject memorandum or other equivalent document has been signed by appropriate U.S. Department of Agriculture authorities.

B. Compliance and Internal Controls

1. Compliance

The audit disclosed four compliance exceptions:

- Some project-funded fertilizer was unaccounted for while remaining quantities were not always distributed in accordance with project agreement provisions (Finding No. 2).
- The Government of Grenada's counterpart support obligations were not monitored by RDO/C management to determine the extent of compliance with project agreements (Finding No. 3).
- Project funds were committed to fruit fly trapping activities beyond the project assistance completion date (Finding No. 5).
- Regional Development Office/Caribbean management did not promptly report missing AID-funded commodities to the Inspector General's Office for Inspections and Investigations as required by AID regulations (see following section).

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

2. Internal Controls

The audit disclosed internal control weaknesses in the following areas:

- Project implementation plans and budgets were not prepared and/or revised to reflect changed project conditions (Finding No. 1).
- Regional Development Office/Caribbean management had not established adequate monitoring controls over receipt, storage and distribution of project funded commodities (Finding No. 2).
- Project financial status reports were not routinely provided to project managers (See following section).
- Project advances were not liquidated in compliance with AID regulations (Finding No. 4).

With the above exceptions, no other control weaknesses came to our attention.

C. Other Pertinent Matters

Two other issues were identified during the audit. First, it came to our attention that the Regional Development Office/Caribbean had not automated its accounting system to provide periodic project financial status reports on its portfolio of approximately 60 major projects and 200 smaller activities. The current manual accounting system had the information available to prepare reports, however, due to staff limitations these reports were prepared on an as-requested basis only. The Controller's Office had obtained the equipment necessary to install the Mission Automated Accounting System and was currently in the process of entering project financial data in the system. The Controller stated that, barring any further staffing problems, all financial information on projects in the RDO/C portfolio would be entered into the automated system by March 31, 1987. We strongly encourage RDO/C management to devote the necessary resources toward this end so that vital project financial reports can be routinely provided to project managers to assist them with their oversight responsibilities.

Second, in regard to the missing fertilizer discussed earlier, it appeared that Mission officials in Grenada were unfamiliar with the reporting requirements of AID Handbook 24 which requires the prompt reporting of crimes, or the suspicion thereof, to the Inspector General's Office for Inspections and Investigations. RDO/C-Grenada officials immediately advised RDO/C, Bridgetown, including the Regional Legal Advisor, of the missing fertilizer and requested guidance. However, AID officials from neither office had immediately advised the Inspector General's Office for Inspections and Investigations. This office was eventually notified by RDO/C-Grenada, but not until Mission officials were advised by the audit team that the mere suspicion of a crime was all that was required under the regulations to warrant a report to the Office of Inspections and Investigations. Based on this incident, it appears that a Mission memo or directive calling employee's attention to the reporting requirements of AID Handbook 24 would be appropriate.

AUDIT OF GRENADA
AGRICULTURAL SECTOR REVITALIZATION PROJECT

PART III - APPENDICES

ACTION: AID-2 INFO: AME DOM ECON CML/S

VZ0Z0160202
CC PUERTG
IE RUEAN #2524/P1 2221543
ZNR UUUUU 229
O 221526Z JAN 87

22-JAN-87 TOR: 13:59
CN: 22578
ORG: AID
DIST: AID

FM AMEMBASSY BRIDGETOWN
TO RUEHTG/AMEMBASSY TEGUCIGALPA IMMEDIATE 0412
RUEHC/SECSTATE WASHDC PRIORITY 3474
BT
UNCLAS BRIDGETOWN 22524

AIDAC

FOR: RIG/A/T C. GOTHARD
- LAC/DR AND LAC/CAR

F.C. 12356:N/A
TAGS: NONE
SUBJECT: RDC/C COMMENT ON DRAFT AUDIT REPORT

RECEIVED
DE AID
22 JAN 1987
RIG OFFICE

REF: DRAFT REPORT ON AUDIT OF GRENADA AGRICULTURAL
- SECTOR REVITALIZATION PROJECT NO. 543-0205

1. RDC/C IS PLEASED TO COMMENT ON THE REFERENCED
DRAFT AUDIT REPORT. WE VIEW THE WORK ACCOMPLISHED TO
PREPARE THE DRAFT REPORT, INCLUDING THE DISCUSSIONS
WITH THE AUDIT TEAM, HELPFUL AND CONSTRUCTIVE.

RDC/C OFFERS COMMENTS CONCERNING EACH OF THE FIVE
RECOMMENDATIONS AND DESCRIBES ACTION TAKEN TO
IMPLEMENT THE RECOMMENDATIONS BELOW:

2. RECOMMENDATION NO. 1

RDC/C HAS CONSULTED WITH OFFICIALS OF THE MINISTRY OF
AGRICULTURE TO IDENTIFY THE SPECIFIC WORK REMAINING
TO BE ACCOMPLISHED UNDER THE PROJECT, AND TO ESTIMATE
THE TIMING, LEVEL OF EFFORT, AND COST OF EACH
SUB-ACTIVITY TO BE UNDERTAKEN PRIOR TO THE CURRENT
FAO OF DECEMBER 1, 1987. THESE ESTIMATES HAVE BEEN
SYNTHESISED INTO A REVISED PROJECT WORK PLAN AND
TRANSMITTED TO THE MINISTER OF AGRICULTURE PER
IMPLEMENTATION LETTER NO. 41 DATED JANUARY 14, 1987.
THIS WORK PLAN SHOWS, AMONG OTHER THINGS, THAT ALL
UNEXPANDED PROJECT FUNDS WILL BE DISPURSED PRIOR TO
THE EXPIRATION OF THE FAO.

ADDITIONALLY, PROJECT IMPLEMENTATION LETTER NO.36,
DATED DECEMBER 17, 1986, SET OUT A DETAILED WORK PLAN
AND TIME SCHEDULE FOR FARM ROAD CONSTRUCTION AND
REFURBISHMENT.

THEFORE, A SITUATION OF EXCESS OBLIGATION IS NOT
EXPECTED TO ARISE. COPIES OF IMPLEMENTATION LETTERS
NO.36 AND 41 ARE IS BEING MAILED TO RIG/A/T. BASED
ON THE ABOVE ACTIONS TAKEN BY RDC/C, WE REQUEST THIS
RECOMMENDATION BE CLOSED. ADVISE PRIORITY.

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3. RECOMMENDATION NO. 2

REC/C RECORDS REFLECT THE PROCUREMENT OF 1,200 METRIC TONS OF BAGGED FERTILIZER WITH A VALUE OF US\$2418,100. APPARENTLY THE AUDIT REPORT PRESENTS ITS FINDINGS IN US SHORT TONS. IN ANY CASE 24,222 BAGS OF FERTILIZER EACH WEIGHING 52 KILOGRAMS WERE ACCOUNTED. RECOMMENDATION NO. 2 (F) RECORDS THE VALUE OF 4,192 BAGS OF UNACCOUNTED FERTILIZER AS US\$2574,427. REC/C COMPUTES THE VALUE AS US\$2572,100 (VALUE PER BAG USD 17.22). REQUEST AUDIT REPORT BE REVISED TO REFLECT CORRECT VALUE OF FERTILIZER NOT ACCOUNTED FOR AS REPORTED IN THIS SECTION.

(A) REC/C PER IMPLEMENTATION LETTER NO.32 DATED JANUARY 13 1987 REQUESTED THE MINISTER OF AGRICULTURE TO SUBMIT A FINAL REPORT BY MARCH 31, 1987 FULLY ACCOUNTING FOR ALL AID-FUNDED FERTILIZER DISTRIBUTED BY THE GRENADA COCOA AND GRENADA BANANA COOPERATIVE ASSOCIATIONS. THIS IMPLEMENTATION LETTER REQUESTED THE MINISTER TO RECOMMEND A METHOD TO ENSURE PROPER DISTRIBUTION IS MADE WHERE IMPROPER TRANSACTIONS OCCURRED.

(B) REC/C PER IMPLEMENTATION LETTER NO.34 DATED MARCH 19, 1986 REQUESTED THE MINISTER OF AGRICULTURE TO INITIATE AN INVESTIGATION OF THE MISSING FERTILIZER ESTIMATED AT 4,192 BAGS WEIGHING 52 KILOGRAMS EACH AND REPORT THE INVESTIGATIVE FINDINGS TO REC/C, AND IF NECESSARY, TO THE APPROPRIATE GRENADIAN AUTHORITIES. COPIES OF MOA'S REPORTS TO A) COCOA ASSOCIATION, B) BANANA ASSOCIATION AND C) MARKETING AND NATIONAL EXPORT BOARD ESTABLISHING THE INVESTIGATIVE COMMITTEE WILL BE FORWARDED TO REC/C.

(C) REC/C PER IMPLEMENTATION LETTER NO.37 DATED JANUARY 15 1987 INSTRUCTED THE MINISTRY OF AGRICULTURE TO SUBMIT A DETAILED REPORT, NOT LESS THAN 1500 WORDS PER CALENDAR CHAPTER, SHOWING THE FINANCIAL AND ACTIVITY STATUS OF THE SPECIAL FUND FOR COOPERATION ACTIVITIES. THIS REPORT IS TO BE FORWARDED TO REC/C UNTIL SUCH TIME AS THE SPECIAL

Not Available Document

C O R R E C T E D C O P Y (P A R 5)

FUND HAS BEEN FULLY LIQUIDATED. RDO/C HAS ALREADY RECEIVED A REPORT ON THE STATUS OF THE SPECIAL FUND. A COPY OF THIS REPORT IS BEING MAILED TO RIG/A/T.

RDO/C IS MAILING COPIES OF IMPLEMENTATION LETTER NO. 39, 34, AND 37 TO RIG/A/T.

BASED ON THE ABOVE ACTIONS TAKEN BY RDO/C REQUEST RIG/A/T CLOSE RECOMMENDATION NO. 2 A, B, AND C. ADVISE PRIORITY.

3. RECOMMENDATION NO. 3

RDO/C PER IMPLEMENTATION LETTER NO. 38, DATED JANUARY 13, 1987, REQUESTED THE MINISTRY OF AGRICULTURE TO PREPARE A REPORT SUMMARIZING THE GOVERNMENT OF GRENADA'S CONTRIBUTIONS TO THE AGRICULTURE REVITALIZATION PROJECT NO. 543-2005 FOR THE PERIOD AUGUST 1984 THROUGH DECEMBER 1986. THE LETTER ALSO INSTRUCTED THE MINISTRY TO PROVIDE AN ACCOUNTING FOR QUOTE COUNTERPART CONTRIBUTIONS UNQUOTE AT THE END OF EACH CALENDAR QUARTER IN THE FUTURE.

RDO/C IS PREPARING SIMILAR IMPLEMENTATION LETTERS FOR OTHER PROJECTS CURRENTLY BEING FUNDED BY USAID IN GRENADA WHICH REQUIRE REPORTING OF COUNTERPART CONTRIBUTIONS BY THE GOG. RDO/C EXPECTS SUCH IMPLEMENTATION LETTERS TO BE SENT BEFORE JANUARY 30, 1987.

RDO/C IS MAILING A COPY OF IMPLEMENTATION LETTER NO. 38 TO RIG/A/T.

BASED ON THE ABOVE ACTION TAKEN BY RDO/C REQUEST RIG/A/T CLOSE THIS RECOMMENDATION AS IT PERTAINS TO PROJECT NO. 543-2005. ADVISE PRIORITY.

4. RECOMMENDATION NO. 4

AS OF 11/28/86 THE GOG MOA HAD AN OUTSTANDING ADVANCE OF US\$10,208,219.28 IN SUPPORT OF MODEL FARM DEVELOPMENT AND PEST MANAGEMENT UNITS. RDO/C HAS MADE A FORMAL DETERMINATION ON 12/6/86 THAT AN ADVANCE FOR NINETY (90) DAYS WAS REQUIRED TO IMPLEMENT THIS PROJECT.

RDO/C RECORDS REFLECT THE FOLLOWING ADVANCES UNDER THIS PROJECT AS OF 11/28/86:

MODEL FARMS COMPONENT

| DATE OF ADVANCE | ECDOLS | USDOLS |
|-----------------|-----------|-----------|
| 5/12/86 | 65,200.00 | 24,254.15 |
| 9/23/86 | 10,000.00 | 3,719.96 |
| TOTAL | 75,200.00 | 27,974.11 |

24

MANAGEMENT COMPONENT

| | | |
|------------------------|------------|-----------|
| BALANCE FORWARDED 7/86 | 1,332.00 | 495.52 |
| 7/22/86 | 94,000.00 | 34,967.64 |
| 11/18/86 | 39,737.00 | 14,782.01 |
| TOTAL | 135,069.00 | 50,245.17 |

TOTAL ADVANCES 11/29/86 210,269.00 78,219.23

REC/O GRENADA REQUESTED A CHECK FOR USDOL\$3,719.96 ON 3/23/86 AND RECORDED THIS AMOUNT AS AN ADVANCE. THIS CHECK WAS NOT RELEASED TO THE MCA AND WAS CANCELLED EFFECTIVE 1/13/87.

AFTER CANCELLATION OF ABOVE MENTIONED ADVANCE OF USDOL\$3,719.96 THE FOLLOWING PRESENTATION REFLECTS THE STATUS OF THE ADVANCES OVER A NINETY (90) DAY PERIOD 12/1/86 THROUGH 2/29/87:

MCA: BARRS COMPONENT

| | FODOL\$ | USDOL\$ |
|----------------------------|-----------|-----------|
| ADVANCE AVAILABLE 11/29/86 | 65,200.00 | 24,254.15 |

EXPENDITURES (RECORDED AFTER 11/29/86):

25

| | | | |
|---|----------------------------|------------|-----------|
| - | ACTUAL JULY - SEPT 86 | 24,635.51 | 9,164.31 |
| - | ACTUAL OCTOBER 86 | 11,899.88 | 4,423.36 |
| - | ACTUAL NOVEMBER 86 | 4,512.22 | 1,678.45 |
| - | ACTUAL DECEMBER 86 | 4,988.22 | 1,855.51 |
| - | EST. JANUARY 87 | 6,722.52 | 2,522.22 |
| - | EST. FEBRUARY 87 | 12,752.22 | 4,222.22 |
| - | TOTAL | 63,499.69 | 23,821.63 |
| - | OVER ADVANCE | 1,722.31 | 632.52 |
| PEST MANAGEMENT UNIT COMPONENT | | | |
| - | ADVANCE AVAILABLE 11/28/86 | 135,269.28 | 50,245.17 |
| EXPENDITURES (RECORDED AFTER 11/28/86): | | | |
| - | ACTUAL 7/2/85 - 10/10/86 | 67,224.28 | 25,227.17 |
| - | EST. 12/11/86 - 11/32/86 | 33,522.22 | 12,461.87 |
| - | EST. 12/1/86 - 2/28/87 | 60,222.22 | 22,319.76 |
| - | TOTAL | 160,724.28 | 59,788.80 |
| - | UNDER ADVANCE | 25,655.20 | 9,543.63 |

THE ABOVE PRESENTATION SHOWS AN ACTUAL OVERALL ADVANCE OF LESS THAN NINETY DAY REQUIREMENT. IT DOES REFLECT HOWEVER THAT THE MOA IS NOT SUBMITTING ITS VOUCHERS ON A TIMELY BASIS. IMPLEMENTATION LETTER NO.42 WAS ISSUED ON JANUARY 13, 1987 REQUESTING THE MOA TO SUBMIT ITS VOUCHER FOR ADVANCE LIQUIDATION NOT LATER THAN TWO MONTHS FOLLOWING THE MONTH FOR WHICH EXPENSES WERE INCURRED.

BASED ON THE ABOVE PRESENTATION REQUEST RIG/A/T REVISE PAGES 21 AND 22 OF REF DRAFT REPORT TO REFLECT ACTUAL RECORDED ADVANCES AS OF 11/28/86 AND SUBSEQUENT ACTUAL AND PROJECTED EXPENDITURES UNDER ADVANCES MADE BY RDO/C. RECOMMENDATION NO. 4 SHOULD BE REPHRASED TO READ RDO/C SHOULD OBTAIN PROMPT SUBMISSION OF VOUCHERS FROM THE MINISTRY OF AGRICULTURE. PLEASE NOTE THERE WAS AN OVER ADVANCE AT INCEPTION OF THE MODEL FARMS AND PEST MANAGEMENT UNITS DUE TO SLOW START-UP. HOWEVER, EXPENDITURES INCURRED THROUGH NOVEMBER, 1986 HAVE OVER TAKEN THIS PROBLEM. SUBSEQUENTLY ADVANCES SHOULD NOT BE NECESSARY PRIOR TO FEBRUARY 1987. STATEMENT MADE CONCERNING UNNECESSARY INTEREST COSTS SHOULD BE REVISED ACCORDINGLY.

RDO/C CONSIDERS THIS RECOMMENDATION TO BE MET AND REQUESTS RIG/A/T PRIORITY ADVISE THIS RECOMMENDATION IS CLOSED.

6. RECOMMENDATION NO. 5

PER IMPLEMENTATION LETTER NO. 35 DATED DECEMBER 16 1986 RDO/C OFFICIALLY EXTENDED THE FACD UNTIL DECEMBER 1, 1987. PER CABLE SANTO DOMINGO 14640, SUBJECT USDA/GRENADA COOPERATIVE FRUIT FLY DETECTION

PRO/C, DATED DECEMBER 2, 1993. USDA/AFRIS ASSERTS
C/O'S AFRIS PROVIDES ASSURANCE THAT IT WILL MEET ALL
COMMITMENTS MADE IN SUBJECT MOU UNQUOTE.

PRO/C IS MAILING COPIES OF BOTH DOCUMENTS TO RIG/A/T.

PRO/C CONSIDERS THIS RECOMMENDATION TO BE MET AND
REQUESTS RIG/A/T PRIORITY ADVISE THAT THIS
RECOMMENDATION IS CLOSED.

7. OTHER COMMENTS:

A) GENERAL:

RIC/C WISHES TO STATE FOR THE RECORD THAT MANY OF THE
IMPLEMENTATION ISSUES IDENTIFIED IN THE TEXT OF THE
DRAFT AUDIT REPORT CAN BE ATTRIBUTED TO INADEQUATE
AND HURRIED DESIGN RATHER THAN MISMANAGEMENT. THE
ONSET OF THE SITUATION IN GRENADA IN THE FIRST
MONTHS FOLLOWING THE EVENTS OF OCTOBER 1993 IS WELL
KNOWN, AS IS KNOWN THE VERY WEAK AND UNSETTLED
POSITION OF THE HOST GOVERNMENT INSTITUTIONS DURING

3/6

UNCLASSIFIED

BRIDGETOWN

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THAT BECAME WHEN THE SUBJECT PROJECT WAS DESIGNED.
 INDEED, PIC/C BELIEVES THAT GOOD MANAGEMENT WAS OFTEN
 RESPONSIBLE FOR OVERCOMING SOME OF THE DESIGN
 PROBLEMS AND FOR USEFULLY ACCOMMODATING THE POLICIES
 OF THE NEW GOVERNMENT ELECTED IN DECEMBER 1984. FOR
 EXAMPLE TO THE READER THE DRAFT AUDIT REPORT FAILS TO
 POINT OUT THAT "EXCESS OBLIGATIONS" ARE IN FACT A
 RESULT OF PRUDENT PROJECT MANAGEMENT AND NOT THE LACK
 OF PLANNING OR INADEQUATE AID MANAGEMENT. THEY
 RESULT PRIMARILY FROM SAVINGS IN THE TECHNICAL
 ASSISTANCE BUDGET BECAUSE EDO/C GRENADA DECIDED THAT
 TECHNICAL ASSISTANCE TO THE MARKETING AND NATIONAL
 IMPROVEMENT BOARD, AS SET OUT IN INITIAL PROJECT
 DESIGN, WAS INAPPROPRIATE WITH REGARDS TO PROJECT
 GOALS AND OBJECTIVES AND AID POLICY, AND WAS GOING TO
 BE PROVIDED UNDER THE AEGIS OF ANOTHER (IBRD-FUNDED)
 PROJECT. WITHOUT GOOD PROJECT MANAGEMENT THIS
 INDIVIDUAL EITHER COULD HAVE BEEN KEPT ON OR A SERIES
 OF SHORT-TERM EXPERTS COULD HAVE BEEN UTILIZED TO
 PROVIDE ADDITIONAL ASSISTANCE THAT WOULD HAVE BEEN
 NICE TO HAVE, BUT NOT ESSENTIAL TO MEETING THE GOALS
 AND OBJECTIVES OF THE PROJECT. WE BELIEVE THAT IT IS
 TO THE CREDIT OF AID PROJECT MANAGEMENT THAT THIS WAS
 NOT DONE AND THAT AID FINANCIAL RESOURCES WERE
 CONSERVED.

NOTE ALSO SHOULD BE MADE OF THE FACT THAT AT THE TIME
 THE PROJECT PAPER WAS WRITTEN, IT WAS PLANNED THAT
 THE TECHNICAL ASSISTANCE ELEMENT OF THE PROJECT WOULD
 TAKE EIGHTEEN (18) MONTHS TO COMPLETE.
 UNFORTUNATELY, THE PACD THAT WAS WRITTEN INTO THE
 GRANT AGREEMENT WAS JANUARY 31, 1986 OR SEVENTEEN
 (17) MONTHS AFTER THE AGREEMENT WAS SIGNED ON JULY
 23, 1984. THIS IS A DESIGN ISSUE. WHEN THAT
 AGREEMENT WAS DRAFTED, THE ROLE OF TRUME SHOULD HAVE
 BEEN TAKEN INTO ACCOUNT THAT IT OFTEN TAKES SIX TO
 EIGHT MONTHS TO PROCURE A TECHNICAL ASSISTANCE
 CONTRACT AND HIRE THE FIRST RESIDENT TECHNICIAN WHEN
 FOLLOWING FEDERAL PROCUREMENT PROCEDURES. RDC/C
 GRENADA FOLLOWED AID PROCUREMENT REGULATIONS IN
 SELECTING THE TECHNICAL ASSISTANCE CONTRACTOR AND AID
 SIGNED THE CONTRACT ON FEBRUARY 25, 1985. THE FIRST
 RESIDENT TECHNICIAN ARRIVED IN MARCH, THEREFORE, IT
 WAS NECESSARY TO EXTEND THE PACD TO JANUARY 30, 1987,
 TO ALLOW FOR THE EIGHTEEN (18) MONTHS OF TECHNICAL
 ASSISTANCE AS ORIGINALLY CONTEMPLATED IN THE PROJECT
 PAPER. THIS EXTENSION WAS APPROPRIATE AND FOLLOWED
 GOOD MANAGEMENT PROCEDURES.
 ADDITIONALLY, IT SHOULD BE REMEMBERED THAT IN THE
 INITIAL DESIGN AND NEGOTIATION OF THE PROJECT WITH
 THE INTERIM GOVERNMENT, THE INTENT BEHIND THE
 DIVESTITURE FUND WAS TO PRODUCE TANGIBLE BENEFITS
 QUICKLY, AS CORRECTLY NOTED IN THE DRAFT REPORT.
 HOWEVER, THIS APPROACH WAS VIEWED AS POLITICALLY
 INFEASIBLE BY THE NEW DEMOCRATIC GOVERNMENT WHICH
 TOOK CHARGE OF THE COUNTRY AFTER THE INTERIM
 GOVERNMENT LEFT OFFICE, RATHER, IT WAS THE ELECTED

GOVERNMENT'S DESIRE IN EARLY 1985 TO ADOPT A MORE
GRADUALIST APPROACH TO THE DIVESTITURE OF GOVERNMENT
LANDS AS ENCODING IN THE MODEL FARMS PROGRAM. AS
DOCUMENTED THROUGH IMPLEMENTATION LETTERS, AID
MANAGEMENT AGREED TO THIS APPROACH, WHICH IT JUDGED
WOULD MEET THE OBJECTIVE OF THE PROJECT TO PRIVATIZE
GOVERNMENT LANDS, ALTHOUGH PERHAPS MORE SLOWLY AGAIN,
THIS WAS A DESIGN PROBLEM FOR WHICH AID MANAGEMENT
TOOK APPROPRIATE CORRECTIVE ACTION BY EXTENDING THE
PAOD. BY THE SAME TOKEN, THE DECISION BY AID
MANAGEMENT TO FULLY FUND THE FRUIT FLY TRAPPING
PROGRAM, WITH THE KNOWLEDGE THAT SMOOTH
IMPLEMENTATION AND COMPLETION OF THE PROGRAM MIGHT
REQUIRE EXTENSION OF THE PAOD, WAS FULLY JUSTIFIED.
IF THE EIGHTEEN-MONTH FRUIT FLY SURVEY, WHICH BEGAN
IN MAY OF 1985, HAD FOUND FLIES ON THE ISLAND, WE
WOULD HAVE HAD NO REASON TO EXTEND THIS ACTIVITY.
WE WOULD FINALLY LIKE TO NOTE FOR THE RECORD THAT
DISCOVERY OF THE MISSING FERTILIZER COULD HAVE BEEN
DELAYED EVEN FURTHER HAD AID MANAGEMENT NOT SET UP
THE SPECIAL ACCOUNT FOR THE FERTILIZER RE-FLOWS. THE
DRAFT AUDIT REPORT CORRECTLY STATES THAT THE LOSS WAS

NOT DISCOVERED BY AID OR THE GOC UNTIL THE ASSOCIATIONS WERE REQUESTED BY AID TO DEPOSIT THE MONIES GENERATED FROM FERTILIZER SALES INTO A SPECIAL SOIL CONSERVATION FUND AND TO ACCOUNT FOR THIS DISBURSEMENT. THE CREATION OF A SPECIAL FUND FOR PE-FIELDS WAS NOT MENTIONED IN EITHER THE PROJECT PAPER OR PROJECT AGREEMENT, BUT WAS INSTITUTED BY PDC/C DURING DISCUSSIONS FOLLOWING DELIVERY OF THE FERTILIZER TO GRENADA. IT SHOULD BE REMEMBERED THAT THE ORIGINAL CONCEPT OF THE PROJECT PAPER DESIGN WAS TO DISTRIBUTE THE FERTILIZER FREE OF CHARGE. HAD THIS TAKEN PLACE, WE MAY HAVE NEVER DETECTED THE MISSING FERTILIZER--WE WOULD HAVE ONLY RECEIVED A LISTING OF RECIPIENTS. CREATION OF THIS FUND HAD TWO EFFECTS: 1) IT PROVIDED FOR ACCOUNTABILITY OF AID RESOURCES WHICH WOULD NOT OTHERWISE BEEN PROVIDED; AND 2) IT PERMITTED MORE DEVELOPMENTAL IMPACT FROM THE FERTILIZER SALES BY ASSISTING FARMERS WITH FIELD DRAINAGE AND SOIL CONSERVATION. THE RECORD SHOWS THAT THIS LATTER ASPECT OF THE FERTILIZER SALES HAS BEEN QUITE SUCCESSFUL AND WELL-RECEIVED BY PARTICIPATING FARMERS.

B) COMPLIANCE AND CONTROL:

WE REFER TO THE FIRST FULL PARAGRAPH ON PAGE 27 OF DRAFT REPORT. WE REQUEST THAT THE WORD QUOTE STOLEN UNQUOTE BE DELETED AND IN PLACE THEREFOR THE PHRASE QUOTE UNACCOUNTED FOR UNQUOTE BE INSERTED. THIS CHANGE WOULD BETTER REFLECT THE SITUATION AS IS CURRENTLY KNOWN. FOR EXAMPLE, THERE IS NO ABSOLUTE EVIDENCE OF THEFT AT THIS TIME. WE SUSPECT PILFERAGE, BUT WE ALSO SUSPECT DETERIORATION AS A RESULT OF INADEQUATE STORAGE, AND IT MAY BE THAT THE CONTROL DOCUMENTATION OF THE ASSOCIATIONS ARE IN ERROR. IN ANY CASE, THE DETERMINATION IS YET TO BE MADE AND THEREFORE WE BELIEVE THE USE OF THE WORD QUOTE STOLEN UNQUOTE IS INAPPROPRIATE.

C) OTHER PERTINENT MATTERS:

REGARDING PAGE 29 FIRST PARAGRAPH OF THE DRAFT AUDIT REPORT PDC/C CONTROLLER PLANS TO COMPLETE CONVERSION OF MANUAL ACCOUNTING SYSTEM TO MACS BY MARCH 31, 1987. PIPELINE REPORT FOR PERIOD ENDED 9/30/86 HAS BEEN PREPARED AND PIPELINE REPORT FOR PERIOD ENDED 12/31/86 WILL BE COMPLETED BY JANUARY 23, 1987.

PDC/C DOES NOT ACCEPT THE STATEMENT MADE ON PAGE 29 SECOND PARAGRAPH CONCERNING UNFAMILIARITY WITH REPORTING REQUIREMENTS OF AID RB 24.

REGIONAL LEGAL ADVISOR, WHEN APPRISED OF SITUATION ON MAY 7, WROTE MEMORANDUM TO USAID/GRENADA STATING THAT MORE STAFF WORK WAS NECESSARY BEFORE HE COULD ADVISE WHAT ACTION TO TAKE. RLA WAS OF OPINION, SO STATED IN MEMO, THAT ADDITIONAL INFORMATION WAS NECESSARY BEFORE PROPER ANALYSIS COULD BE CONDUCTED AND ADVICE

OR RECOMMENDATION GIVEN. AT TIME OF USAID/G WRITTEN RESPONSE TO RLA MEMO IN LATE SEPTEMBER, A RESPONSE WHICH CONTAINED CONSIDERABLY MORE INFORMATION AND A PROPOSED ACTION TO ADDRESS THE MATTER, AN AUDIT HAD BEEN SCHEDULED FOR THE PROJECT, AND ONLY REASONABLE COURSE OF ACTION WAS TO LET THE AUDIT TAKE ITS COURSE. THE AUDIT TEAM WAS MADE AWARE OF THE LOST FERTILIZER SITUATION PRIOR TO ITS ARRIVAL IN GRENADA. RLA AND MISSION OF COURSE, WELL AWARE OF REPORTING REQUIREMENT, STATED DRAFT REPORT, BUT, BASED ON INCOMPLETE INITIAL INFORMATION FROM USAID/G, COUPLED WITH LONG-COMPLETED STATE OF ALL FERTILIZER SALES, NO ONGOING SALES, RELATIVE LACK OF ANY INFORMATION OR ALLEGATION REGARDING WRONGDOING OF EITHER GOVERNMENT OFFICIALS OR THOSE INDIVIDUALS CHARGED WITH OPERATING THIS ASPECT OF PROJECT, RLA FELT IT PREMATURE FOR SUCH REPORT. RIG SHOULD NOTE THAT PILFERAGE AND SPOILAGE FROM INITIAL REPORTS APPEARED TO BE THE CAUSE OF LOSS. THUS CONCENTRATION IN EYES OF RLA APPROPRIATELY LIES UPON WHETHER A COUNTRY CLAIM FOR THE VALUE OF THE LOST FERTILIZER MAY BE ASSERTED AND, IF SO, THE AMOUNT OF

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SUCH POTENTIAL CLAIM. WE BELIEVE IT SHOULD BE
POINTED OUT THAT, EVEN AFTER THOROUGH EXAMINATION,
BIG IPART REPORT ITSELF DID NOT RECOMMEND HIS
INVESTIGATION. PUSO
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LIST OF REPORT RECOMMENDATIONS

Page No.

Recommendation No. 1

We recommend that, if the project assistance completion date is extended, USAID/RDO/C-Grenada, in consultation with the Ministry of Agriculture:

- (a) identify remaining essential project activities,
- (b) establish an implementation plan for those activities to include costs and implementation time frames, and
- (c) rebudget and/or deobligate/reobligate excess obligations.

Recommendation No. 2

We recommend that the Regional Development Office/Caribbean-Grenada issue project implementation letter(s) to request the Ministry of Agriculture to:

(a) Submit a detailed final report fully accounting for all AID-funded fertilizer distributed by the Grenada Cocoa and Grenada Banana Cooperative Associations. (This report should identify the total number of bags received and unit price paid by each fertilizer recipient, and should also describe the actions to be taken by the Regional Development Office/Caribbean-Grenada and the Ministry to ensure that proper restitution is made for incorrect fertilizer transactions. This should include, for example, the Government of Grenada restoring to the soil conservation fund the difference between actual fertilizer cost and the subsidized price the Grenada Farms Corporation paid the Banana association for project fertilizer.)

(b) Initiate an investigation of the missing fertilizer estimated at 4,192 bags worth \$74,427, and report its findings to USAID and, if necessary, to the appropriate local authorities. (If this investigation does not recover the missing commodities or their equivalent market value, then the Ministry along with the two associations responsible for safeguarding the fertilizer should restore to the soil conservation fund an amount equal to what would have been deposited if the missing fertilizer had been sold to eligible growers at the established price of US\$4.46 per bag.)

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| (c) Submit a detailed periodic report on the status of soil conservation activities until the special fund has been liquidated. | |
| <u>Recommendation No. 3</u> | 12 |
| We recommend that RDO/C-Grenada obtain from appropriate Government of Grenada entities, through project implementation letters or equivalent documents, a report summarizing their contributions to AID projects by element, as of September 30, 1986 and updates of this information on a quarterly basis for the remainder of all AID projects in Grenada containing a Government of Grenada counterpart support obligation. | |
| <u>Recommendation No. 4</u> | 14 |
| We recommend that RDO/C-Grenada obtain Ministry of Agriculture submissions of expense vouchers promptly, and the return of advanced funds which exceed 90 days' requirements. | |
| <u>Recommendation No. 5</u> | 16 |
| We recommend that, if the Grenada Agricultural Revitalization Project assistance completion date is extended, RDO/C-Grenada obtain, as a condition to continued funding of the fruit fly program beyond March 31, 1987, a signed Memorandum of Understanding or other written assurance that USDA's Animal and Plant Health Inspection Service formally sanctions the trapping program and that its results would be used to further Grenada's efforts to export certain fruits and vegetables to the United States. | |

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