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AUDIT OF
U.S.A.I.D./SRI LANKA REPORTING
ON COMPLETED PROJECTS

AUDIT REPORT NO: 5-383-87-5
July 7, 1987

July 7, 1987

MEMORANDUM FOR U.S.A.I.D./Sri Lanka Director, Robert C. Chase
FROM: RIG/A/Singapore, *Richard E. Derrick*
SUBJECT: Audit of U.S.A.I.D./Sri Lanka Reporting on Completed Projects

This report presents the results of audit of U.S.A.I.D./Sri Lanka reporting on completed projects. Please advise us within 30 days of any additional information related to actions planned or taken to implement the recommendations. We appreciate the excellent cooperation and courtesy extended our staff during the audit.

Background

A.I.D. Handbook 3, Chapter 14, requires project officers to prepare a Project Assistance Completion Report not later than six months after the Project Assistance Completion Date (PACD). Two major purposes of the report are to (1) provide a summary of actual project contributions made by A.I.D. and the host government compared to the contributions required under the project agreement and (2) define continued A.I.D. monitoring responsibilities including the timing and resources involved. The Handbook prescribes that the reports should be reviewed by appropriate mission or office managers and decisions made on the recommendations. A.I.D. Handbook 19 requires mission controllers to receive copies of project completion reports and comment as necessary on financial matters.

U.S.A.I.D./Sri Lanka was responsible for preparing completion reports on eight projects with a PACD during the three-year period ended September 30, 1986. The total Government of Sri Lanka contributions required under the agreements for these projects were \$47.1 million.

The A.I.D. Office of Inspector General issued two audit reports (No. 1-500-87-07, dated November 26, 1986 and No. 6-263-87-4, dated March 12, 1987) in the past year specifically on host country contributions. The audit work for these reports covered 49 completed projects in 11 countries. The audits found that the Project Assistance Completion Reports had not been prepared for 33 of the 49 projects. The reports also noted that the missions had not determined the actual amount of the host governments' contributions for 42 of the 49 projects.

Audit Objectives and Scope

As part of a broader review of U.S.A.I.D./Sri Lanka's monitoring of host country contributions to A.I.D.-funded projects, the Regional Inspector General for Audit/Singapore assessed U.S.A.I.D.'s compliance with A.I.D. requirements for project assistance completion reports. The specific audit objectives were to determine if (1) the required completion reports were prepared, (2) host country contributions were adequately addressed in the reports and (3) actions recommended in the reports were monitored to assure implementation. The audit was performed during the period April 8, 1987 through April 30, 1987.

The audit covered eight U.S.A.I.D./Sri Lanka projects with a PACD during the three-year period ended September 30, 1986. Audit work primarily included a review of the project completion reports and discussions with mission officials. For one project, we also met with Government of Sri Lanka officials and visited warehouses to examine A.I.D.-funded equipment. The work was impaired to some extent because project officers for several completed projects were no longer assigned to the mission and recently assigned management staff were not familiar with the projects. The audit primarily focused on management weaknesses and did not attempt to quantify or fully develop problems for each project. The audit was made in accordance with generally accepted government auditing standards.

Results of Audits

U.S.A.I.D./Sri Lanka had prepared six and was preparing another of the eight required project completion reports. However, the reports prepared did not adequately address host country contributions. U.S.A.I.D./Sri Lanka did not effectively monitor all the appropriate actions recommended in the completion reports.

U.S.A.I.D./Sri Lanka issued a mission order in February 1987 which provided for a tracking system to ensure project completion reports are prepared on time. The mission also initiated conscientious and excellent efforts to monitor host country contributions. These latter efforts should help resolve the problem of addressing host country contributions.

However, the mission still needs to improve its management system to ensure that (1) project completion reports adequately address host country contributions and (2) actions recommended in the reports are effectively implemented and monitored. Therefore, we recommend that the mission develop procedures to improve their management in these two areas. We also recommend that they take action

concerning almost \$500,000 of unutilized A.I.D.-funded equipment.

U.S.A.I.D./Sri Lanka's Management System of Project Completion Reports Needs Improvement - A.I.D. missions are required to prepare project completion reports which compare planned versus actual host country contributions. The missions should also ensure report recommendations for continued A.I.D. monitoring are carried out. U.S.A.I.D./Sri Lanka did not in all cases ensure that the reports adequately addressed host country contributions and that recommended monitoring actions were effectively performed. Therefore, U.S.A.I.D. was uncertain if the Government of Sri Lanka contributed its required contributions. Also, actions recommended in some reports were not performed or management did not know if they were performed. For example, in one project A.I.D.-funded equipment purchased at least six years earlier and costing almost \$500,000 had still not been utilized at the time of this audit. The mission could have mitigated these problems if they had procedures to ensure host country contributions were adequately addressed and appropriate action was taken on report recommendations.

Discussion - A.I.D. Handbook 3, Chapter 14, requires project officers to prepare project completion reports which compare required versus actual host country contributions to a project and include recommendations for continued monitoring responsibilities. The report should be reviewed by appropriate mission officials. Comments should be made as necessary on financial matters and decisions taken on recommendations for continued monitoring.

U.S.A.I.D./Sri Lanka prepared project completion reports for six of the eight completed projects. A report was being prepared for a seventh project. No project completion report was prepared for the eighth project because mission officials thought an A.I.D. Office of Inspector General audit report (No. 5-383-85-4, dated August 29, 1985) issued at the end of the project sufficed for the completion report.

U.S.A.I.D./Sri Lanka addressed the Government of Sri Lanka contributions in all six completion reports. However, the reports did not provide complete and accurate information to determine if the Government provided its required contributions. For example, as shown in Exhibit 2, five of the six reports indicated the Government did not provide its required contributions. However, the reports did not provide a reconciliation or explanation on the differences between required and actual contributions. In some cases, the actual amounts reported were not correct or were amounts reported by the Government of Sri Lanka without verification by the mission.

Examples of report weaknesses follow:

- The completion report on an agricultural storage project reported both the required and actual contributions of \$11.0 million. Based on available data at the mission and discussions with mission and Government of Sri Lanka officials, the amount actually provided was less than \$10.2 million.
- The report for a training project noted that the Government of Sri Lanka was to provide at least 25 percent of total project costs. This would be about \$1.9 million. The report merely stated that the Government support for this project was considered satisfactory. No specific amount of contributions was identified.
- The report for a rice research project identified required and actual Government of Sri Lanka contributions of about \$3.2 million and \$2.1 million, respectively. The report did not explain the contribution shortage.

In addition to not assuring that the completion reports adequately addressed host country contributions, U.S.A.I.D./Sri Lanka did not assure continued project monitoring recommended in the reports were effectively carried out. For example, the completion report prepared in August 1985 on a training project which was completed that month recommended that a final financial review would be required soon after May 31, 1986 to determine the amount for deobligation. The review was not performed. However, a subsequent and unconnected financial review of this project was performed in February 1987 and \$186,403 was identified for deobligation. This amount could have been deobligated more than six months earlier if the mission performed the review recommended in the completion report.

Another example of not carrying out recommended actions concerned an agricultural storage project which had a PACD of June 30, 1984. The project completion report prepared in January 1985 identified A.I.D.-funded equipment costing about \$661,000, which had been in Sri Lanka since April 1981, was not utilized for project purposes. The report stipulated that, to assure compliance with the project agreement, U.S.A.I.D./Sri Lanka should continue to monitor project progress to assure that the equipment was effectively utilized.

Mission officials did not follow up on the recommended actions in the completion report and did not know the status of the equipment. The project officer believed most of the equipment was stored in a warehouse. Thereafter, a joint auditor/project officer inspection at the warehouses and discussions with Government of Sri Lanka officials showed that most of the equipment was still not utilized. This included equipment (costing about \$341,000) for a milling complex and about 800 moisture meters (costing about \$128,000). Thus, by not following up on the recommended actions, U.S.A.I.D./Sri Lanka was not aware that A.I.D.-funded equipment purchased more than six years ago and costing about \$469,000 still was not utilized.

In commenting on the draft of this report, U.S.A.I.D./Sri Lanka stated that the Government of Sri Lanka officials informed the auditors that the moisture meters were being used. The Government officials actually informed the auditors that only about 1,200 of the 2,000 moisture meters identified in the project completion report had been utilized. As noted above, the audit disclosed that the remaining 800 moisture meters had yet to be utilized.

Government of Sri Lanka officials said they intend to use the milling complex equipment when funds are available to build the complex. They also intend to use the moisture meters once the country's ethnic problems are resolved.

Mission officials attributed the above problems to inadequate procedures to ensure (1) the reports adequately addressed host country contributions including quantified and verified amounts and (2) recommendations included in the reports were effectively carried out. Thus, U.S.A.I.D./Sri Lanka should establish effective management monitoring systems in these areas.

Recommendation No. 1

We recommend that U.S.A.I.D./Sri Lanka establish procedures to:

- a. review project completion reports to ensure the reports adequately address host country contributions including quantified and verified amounts so that mission management can determine whether or not the required host country contributions were made; and
- b. ensure recommendations included in project completion reports are implemented.

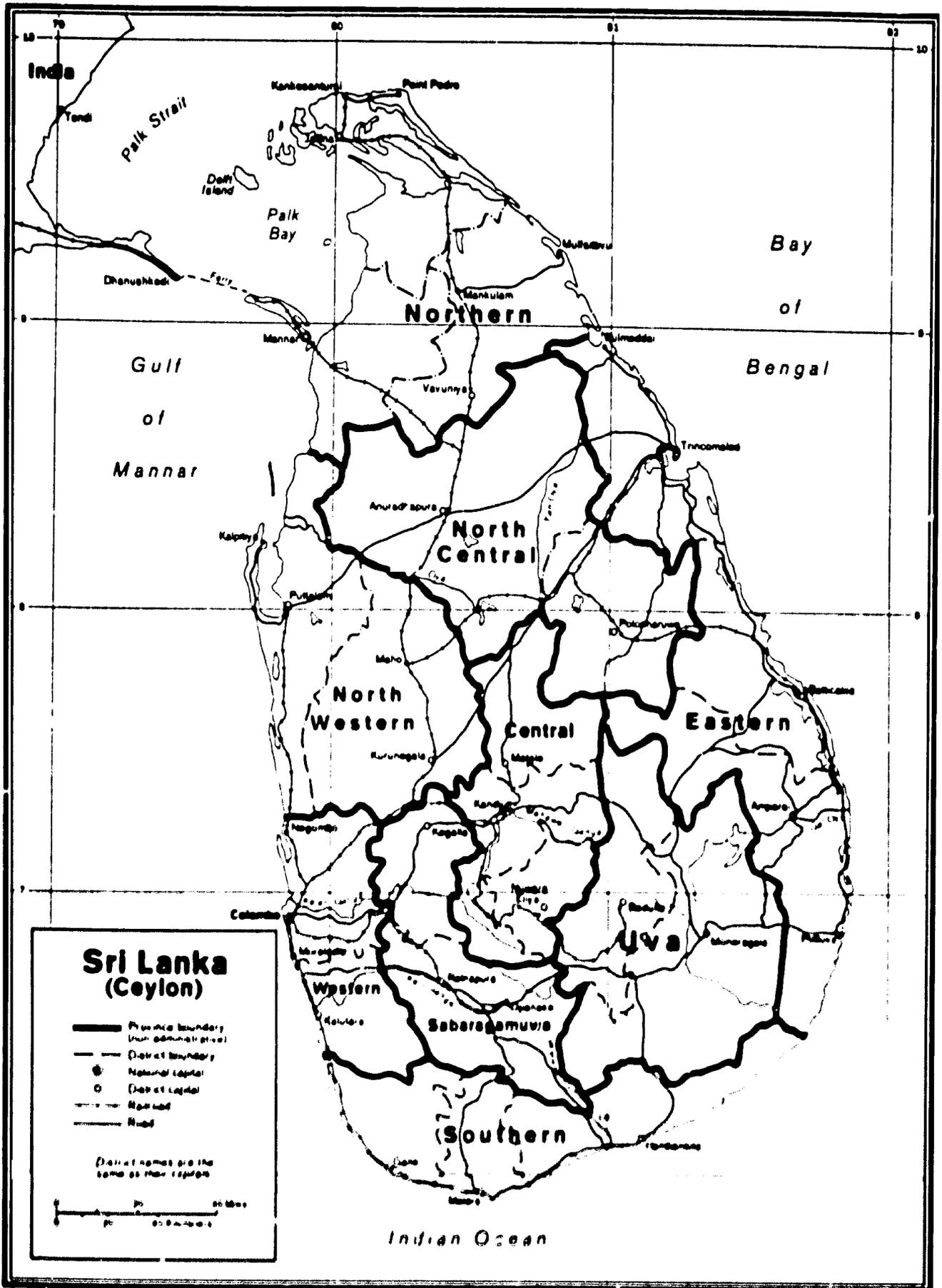
Recommendation No. 2

We recommend that U.S.A.I.D./Sri Lanka establish a plan for the effective utilization of equipment costing almost \$500,000 under the agricultural storage project or take appropriate action to collect a refund from the Government of Sri Lanka.

U.S.A.I.D./Sri Lanka agreed to implement the two recommendations. Therefore the recommendations are considered resolved and will be closed upon completion of the corrective actions. There comments have been incorporated in the report as appropriate and the full text of the comments are included as Appendix 1.

**AUDIT OF
U.S.A.I.D./SRI LANKA REPORTING
ON COMPLETED PROJECTS**

EXHIBITS AND APPENDICES



Analysis of Required and Actual
Government of Sri Lanka Contributions
to Completed Projects 1/

<u>Project Name and Number</u>	<u>Project Assistance Completion Date</u>	<u>Host Country Contributions (\$000)</u>		<u>Comments</u>
		<u>Required</u>	<u>Actual</u>	
Agricultural Base Mapping (383-0045)	Jan 31, 1984	1,900	1,362	
Development Services and Training (383-0044)	Aug 31, 1985	1,917	-	Project completion report merely states Government of Sri Lanka support was considered satisfactory. No amount identified.
Market Town Water Supply (383-0063)	Jun 30, 1985	3,635	3,453	
Paddy Storage and Processing (383-0041)	Jun 30, 1984	11,028	10,169	
Rice Research (383-0040)	Jun 30, 1984	3,220	2,063	
Water Management (383-0057)	Dec 31, 1985	8,578	7,386	

1/ The required and actual contribution amounts are based on amounts reported in the project completion reports. No additional review was performed by the auditors to verify the accuracy of the data. The only exception is the actual amount shown for the Paddy Storage and Processing Project. The completion report identified actual as \$11,028,000. However, based on available information, the Government of Sri Lanka did not provide more than \$10,169,000.

U.S.A.I.D./Sri Lanka commented on the draft of this report that the project paper for the Paddy Storage and Processing Project identified that Government of Sri Lanka project contribution should be 71 million Rupees. We do not disagree. However, the project agreement required the Government to provide contributions of not less than the equivalent of approximately \$11.0 million at an exchange rate of 16 Rupees to \$1. This

computes to about 176.4 million Rupees. Available data and discussions with mission and Government of Sri Lanka officials indicated that the actual contribution was not more than 162.7 million Rupees--or about \$10,169,000 at the conversion rate of 16 Rupees to \$1.

U.S.A.I.D./Sri Lanka also believed that this exhibit should be deleted from the final report because the exhibit does not identify actual A.I.D. expenditures. In our opinion, the exhibit illustrates the need for completion reports to provide a reconciliation or explanation on the differences between required and actual contribution to help mission management assure that the Government provided its financial commitment to completed projects.

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 DE RUFBCM #4336/01 1820520
 ZNR UUUUU ZZH
 O 010516Z JUL 87
 FM AMEMBASSY CCLCMBC
 TO AMEMBASSY SINGAPORE IMMEDIATE 3188
 BT
 UNCLAS SECTION 01 OF 02 COLCMBO 04336

LOC: 350-351
 01 JUL 87
 CN: 43945
 CHRG: AID
 DIST: AID

AIDAC

I.C. 12356: N/A

SUBJECT: DRAFT AUDIT REPORT ON COMPLETED PROJECTS

REF: A) SINGAPORE 027113 B) COLOMBO 04077 C) RIG/A/S
 LETTER AND ATTACHMENT DATED 26 MAY 1987

MISSION REGRETS THAT WE INADVERTANTLY SENT COLOMBO
 04077 (6/16/87) TO AID/W INSTEAD OF RIG/SINGAPORE.
 THE FULL CABLE IS RETRANSMITTED BELOW:

1. MISSION APPRECIATES THE OPPORTUNITY TO COMMENT ON
 THE SUBJECT REPORT. OUR COMMENTS BELOW ARE LISTED BY
 THE INDIVIDUAL RECOMMENDATIONS:

2. RECOMMENDATION NO 1.: CUCTF A. REVIEW PROJECT
 COMPLETION REPORTS TO INSURE THE REPORTS ADEQUATELY
 ADDRESS HOST COUNTRY CONTRIBUTIONS INCLUDING
 QUANTIFIED AND VERIFIED AMOUNTS SO THAT MISSION
 MANAGEMENT CAN DETERMINE WHETHER OR NOT THE REQUIRED
 HOST COUNTRY CONTRIBUTIONS WERE MADE, AND P. INSURE
 RECOMMENDATIONS INCLUDED IN PROJECT COMPLETION
 REPORTS ARE IMPLEMENTED. UNQUOTE

MISSION COMMENT: THE MISSION IS IN GENERAL AGREEMENT
 WITH THE ABOVE RECOMMENDATION. AS THE BACKGROUND
 PORTION OF THE REPORT NOTES, THE MISSION HAS QUOTE
 INITIATED CONSCIENTIOUS AND EXCELLENT EFFORTS TO
 MONITOR HOST COUNTRY CONTRIBUTION...WHICH...SHOULD
 HELP RESOLVE THE PROBLEM OF ADDRESSING HOST COUNTRY
 CONTRIBUTIONS. UNQUOTE IN ADDITION, THE BACKGROUND
 SECTION NOTES THAT A PREVIOUS SURVEY OF 11 COUNTRIES
 FOUND THAT 33 OF 49 PROJECTS COMPLETION REPORTS HAD
 NOT BEEN PREPARED AND THAT THE INVOLVED MISSIONS HAD
 NOT DETERMINED THE ACTUAL AMOUNT OF THE HOST
 GOVERNMENTS CONTRIBUTION FOR 42 OF THE 49 PROJECT.
 IN VIEW OF THE OVERALL AGENCY PERFORMANCE, MISSION
 PERFORMANCE WITH RESPECT TO MONITORING PROJECT
 COMPLETION WOULD APPEAR TO BE EXCELLENT. OF EIGHT
 PROJECTS REVIEWED IN SRI LANKA, COMPLETION REPORTS
 FOR SIX PROJECTS WERE ON HAND, THE REPORT FOR ONE
 RECENTLY COMPLETED PROJECT IS NOW BEING DRAFTED ON
 SCHEDULE, AND THE OTHER PROJECT WAS REPRESENTED BY A
 PREVIOUS AUDIT REPORT. IN ADDITION, MISSION
 INITIATIVES TO ESTABLISH FORMAL MISSION PROCEDURES TO

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REQUIRE AND MONITOR PROJECT COMPLETION REPORTS HAVE BEEN SET SINCE THE BEGINNING OF 1987.

USAID CCLCPEO WILL BE REFINING THE ESTABLISHED PROCEDURES FOR PROJECT COMPLETION TO INSURE THAT THE ISSUE OF THE HOST COUNTRY CONTRIBUTION IS SPECIFICALLY ADDRESSED; THE REPORTS ARE REVIEWED BY THE APPROPRIATE MISSION STAFF, AND ALL RECOMMENDATIONS AND FOLLOW-UP ACTIONS ARE TRACKED FOR COMPLIANCE. WE WILL INCORPORATE THESE INTO ESTABLISHED MISSION PROCEDURES AND FORWARD A COPY TO RIG/A/S WITH A REQUEST THAT THIS RECOMMENDATION BE CLOSURED.

ON AN EDITORIAL MATTER THE MISSION BELIEVES THAT THE TITLE OF THE SECTION ON PAGE 5 OF THE DRAFT REPORT QUOTE USAID/SRI LANKA'S MANAGEMENT SYSTEM NEEDS IMPROVEMENT UNQUOTE IS TOO BROAD AND THAT AN ALTERNATIVE SUCH AS QUOTE USAID/SRI LANKA'S MANAGEMENT SYSTEM OF PROJECT COMPLETION REPORTS NEEDS REFINEMENT UNQUOTE WOULD BE MORE ACCURATE.

3. RECOMMENDATION NO.2: QUOTE WE RECOMMEND THAT USAID/SRI LANKA ESTABLISH A PLAN FOR THE EFFECTIVE UTILIZATION OF EQUIPMENT COSTING ALMOST DOLS 500,200 UNDER THE AGRICULTURAL STORAGE PROJECT OF TAKE APPROPRIATE ACTION TO COLLECT A REFUND FROM THE GOVERNMENT OF SRI LANKA. USAID SRI LANKA CONCURRED WITH THE FINDINGS AND AGREED TO IMPLEMENT EACH OF THE RECOMMENDED ACTIONS. UNQUOTE

THE MISSION IS IN GENERAL AGREEMENT TO THE RECOMMENDATION AND WILL ESTABLISH A PLAN FOR THE UTILIZATION OF THE EQUIPMENT. IN VIEW OF THE TIME THAT HAS ELAPSED SINCE THE PROJECT WAS INITIATED IT WOULD APPEAR OBVIOUS THAT THERE WAS NO INTENT ON ANYONE'S PART TO DIVERT THE USE OF THE EQUIPMENT. THE MISSION THEREFORE WILL RECOMMEND TO THE GOVERNMENT THAT THE BEST COURSE IS TO STORE IT UNTIL IT CAN BE PUT INTO SERVICE. THE REPORT SHOULD NOTE THAT THE MAINTENANCE MATTERS ARE BEING USED IN A WAY WHICH THE AID AGRICULTURE OFFICE AND AUDITORS FOUND ACCEPTABLE. THEREFORE, THAT PART OF THE RECOMMENDATION SHOULD BE DELETED.

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MISSION COMMENTS TO SPECIFIC SECTIONS OF THE REPORT ARE AS FOLLOWS:

A) PAGE 8 - QUOTE MISSION OFFICIALS DID NOT FOLLOW UP ON THE RECOMMENDED ACTION IN THE COMPLETION REPORT AND DID NOT KNOW THE STATUS OF THE EQUIPMENT. THE OFFICER BELIEVED THAT MOST OF THE EQUIPMENT WAS STORED IN A WAREHOUSE. UNQUOTE WHILE EARLIER AGRICULTURE MANAGEMENT POLICY MAY HAVE BEEN THAT FAST PACE MONITORING WAS NOT NECESSARY, MISSION STAFF WERE AWARE OF THE STATUS OF THE UNUTILIZED EQUIPMENT AND INFORMED THE AUDITORS THAT THE EQUIPMENT WAS IN A WAREHOUSE.

B) PAGE 8 QUOTE DISCUSSIONS WITH GOVERNMENT OFFICIALS SHOWED THAT MOST OF THE EQUIPMENT WAS STILL NOT UTILIZED. UNQUOTE THAT STATEMENT IS PARTIALLY CORRECT. THE IDENTIFIED EQUIPMENT ARE (A) COMPONENTS OF THE 7TH COMPLEX AND (B) 900 MOISTURE METERS. AS REGARDS (A) THE STATEMENT IS CORRECT. AS REGARDS (B) STATEMENT IS INCORRECT. THE STOREKEEPER AT THE WAREHOUSE AND THE GENERAL MANAGER AND CHAIRMAN OF THE FAIRY MARKETING BOARD INFORMED THE AUDITORS THAT DURING THE SEASONS YALA AND MARA THE METERS ARE EITHER RENTED OR HIRED TO THE CO-OPERATIVE DEPARTMENT, THE AGRARIAN SERVICES DEPARTMENT AND THE PRIVATE TRADERS/MILLERS FOR USE IN THE SALE OR PURCHASE OF FAIRY.

C) EXHIBIT 1 OF THE AUDIT REPORT INDICATES THAT THE HOST COUNTRY CONTRIBUTIONS REQUIRED WAS APPROX. DOLLARS 11 MILLION WHILE THE ACTUAL CONTRIBUTIONS WAS ONLY ABOUT 10 MILLION. THE ACTUAL POSITION IS AS FOLLOWS:

(A) AS PER PROJECT PAPER

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- USAID ICAN DOLS 9.4 MILLION

- GSI CONTRIBUTIONS RS 71 MILLION

(B) PRESENT POSITION

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- USAID ICAN DOLS 4.9 MILLION
(AFTER DEDUPLICATION)

- GSI CONTRIBUTION APPROX. RS 167
MILLION

THE ABOVE INDICATES THAT THE PROJECT RELATED EXPENDITURE IS APPROXIMATELY 23% PER CENT OF FP AND PPCAG ESTIMATED GSI EXPENDITURES. IF THE RATE IS USED WHICH WAS IN FORCE DURING THE TIME THE FP WAS AUTHORIZED. (DOLS 1 RS 12.7), IT WOULD SHOW A CONTRIBUTION MUCH LARGER THAN WHAT WAS EXPECTED.

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THE US DOLLAR FIGURE CITED BY THE AUDITOR IS BASED ON CURRENT EXCHANGE RATES AND NOT THOSE IN FORCE WHEN THE AGREEMENT WAS SIGNED. AGENCY PRACTICE HAS BEEN TO CALCULATE THE CONTRIBUTION BASED ON THE RATE IN EFFECT AT THE TIME THE AGREEMENT WAS SIGNED. WE ARE UNAWARE OF ANY OFFICIAL GUIDANCE WHICH IN EFFECT OBLIGATES THE HOST GOVERNMENT TO FEAR A FOREIGN EXCHANGE RISK FOR LOCAL CURRENCY EXPENDITURES. IN ADDITION, ACTUAL EXPENDITURES FROM THE AID PORTION OF THE PROJECTS REFERENCED ARE NOT CITED AND IN SOME CASES WERE LESS THAN THE ORIGINAL AGREEMENTS. IT, THEREFORE, WOULD BE APPROPRIATE FOR THE FINAL AUDIT REPORT TO DELETE THIS EXHIBIT. SPAIN

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Appendix 2

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