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AUDIT OF
CONTROLS OVER GOVERNMENT OF SRI LANKA
CONTRIBUTIONS TO A.I.D.-FINANCED
PROJECTS IN SRI LANKA

Audit No: 5-383-87-6
September 3, 1987

September 3, 1987

MEMORANDUM FOR U.S.A.I.D./Sri Lanka, Director, Peter Bloom

FROM: *Thomas B. Ankiewicz*
Thomas B. Ankiewicz, RIG/A/Singapore (Acting)

SUBJECT: Audit of U.S.A.I.D./Sri Lanka Controls Over
Government of Sri Lanka Contributions to
A.I.D.-Financed Projects

This report presents the results of audit of U.S.A.I.D./Sri Lanka Controls over Government of Sri Lanka Contributions to A.I.D.-Financed Projects. The compliance audit was made to (1) evaluate the adequacy of U.S.A.I.D./Sri Lanka's procedures for monitoring Government of Sri Lanka project contributions and (2) determine if the Government provided its required contributions.

U.S.A.I.D./Sri Lanka's procedures were inadequate to effectively monitor Government of Sri Lanka contributions to A.I.D.-funded projects. The Government did not always provide its required contributions.

U.S.A.I.D./Sri Lanka initiated actions especially in the past year to monitor the Government of Sri Lanka's contributions to A.I.D.-funded projects. For example, a comprehensive draft mission order was issued in March 1987 to establish procedures to ensure that required financial contributions were made. Also, starting with the quarter ended December 31, 1986, U.S.A.I.D. required that their quarterly project implementation reports identify the level of host country financial contributions provided and any problems in project staffing.

However, the Government's contributions were not always made. Additional progress was needed in U.S.A.I.D.'s monitoring system to ensure that host country contribution problems are identified and resolved in a timely manner.

We are recommending that U.S.A.I.D./Sri Lanka establish policies and procedures in specific areas for better controls over host country contributions.

Your comments to the draft report were considered in finalizing this report. The comments are discussed in appropriate sections of the report and your full response is attached as Appendix 1 to the report. You generally concurred with part (a) of the recommendation and that part

is considered resolved. You did not concur with the other three parts of the recommendation and they are considered unresolved.

EXECUTIVE SUMMARY

Section 110 of the Foreign Assistance Act of 1961, as amended, provides that no United States assistance should be furnished to a country under Sections 103 through 106 of the Act until the country provides assurances to the President that it will provide at least 25 percent of the cost of the entire program or project for which such assistance is to be furnished. The Congress enacted this requirement concerning Development Assistance funds in order that recipient governments demonstrate their interest and support in the development efforts financed by A.I.D.

As of April 1, 1987, U.S.A.I.D./Sri Lanka had 11 active projects requiring total Government of Sri Lanka contributions of about \$203.2 million. This was 45 percent of the overall estimated project costs of approximately \$453.4 million.

The objective of this compliance audit made by the Office of the Regional Inspector General for Audit/Singapore was to (1) evaluate the adequacy of U.S.A.I.D./Sri Lanka's procedures for monitoring Government of Sri Lanka project contributions and (2) determine if the Government provided its required contributions.

U.S.A.I.D./Sri Lanka's procedures were inadequate to effectively monitor Government of Sri Lanka contributions to A.I.D.-funded projects. The Government did not always provide its required contributions.

U.S.A.I.D./Sri Lanka initiated actions especially in the past year and prior to this audit to monitor the Government of Sri Lanka's contributions to A.I.D.-funded projects. For example, a comprehensive draft mission order was issued in March 1987 to establish procedures to ensure that required financial contributions were made. Also, starting with the quarter ended December 31, 1986, U.S.A.I.D. required that their quarterly project implementation reports identify the level of host country financial contributions provided and any problems in project staffing.

However, the Government's contributions were not always made. Additional progress was needed in U.S.A.I.D.'s monitoring system to ensure that host country contribution problems are identified and resolved in a timely manner.

Project agreements required the Government of Sri Lanka to contribute financial and other resources to A.I.D.-financed projects. A.I.D. handbooks required that U.S.A.I.D.'s

establish monitoring systems to ensure that the required contributions were made. The Government did not always provide its required contributions to projects especially in the area of project staffing. The inadequate contributions resulted in the inefficient use of A.I.D. funds and loss of economic benefits to the Government and people of Sri Lanka. U.S.A.I.D./Sri Lanka was not in a good position to mitigate these problems because it had not established an adequate monitoring system and the related controls to identify and resolve host country contribution problems. This report recommends that U.S.A.I.D./Sri Lanka establish policies and procedures in specific areas for better controls over host country contributions. U.S.A.I.D./Sri Lanka concurred generally in only one of the four parts of the recommendation.

Office of the Inspector General

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PART I - INTRODUCTION

A. Background

Section 11C of the Foreign Assistance Act of 1961, as amended provides that:

"No assistance shall be furnished by the United States Government to a country under sections 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied, that such country provide at least 25 per centum of the costs of the entire program, project or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an "in-kind" basis."

The Congress enacted this requirement so that the recipient governments could demonstrate their interest and support in A.I.D.'s development efforts. Section 124 of the Act provides for exceptions on a case-by-case basis.

A.I.D. regulations require that project agreements include a financial plan which shows the amount of A.I.D. and host country contributions to projects. Project officers and other mission officials are responsible for ensuring the host countries provide their required contributions.

The importance of A.I.D. controls over development resources including host country contributions was stressed in a March 1987 cable (State 084270) to all A.I.D. missions. The cable stipulated that the A.I.D. Administrator strongly endorsed certain principles for A.I.D. coordination with developing countries to assure the efficient and effective use of host country resources. The principles focused on developing well designed policies and carefully appraised investment expenditure programs for the effective use of host country resources. The principles also provided for the regular review of host country investment programs to examine progress and to consult on priorities.

The need for host governments to provide and account for their required contributions was one of the most frequently recurring recommendations addressed in A.I.D. Inspector General audit reports on specific projects. In addition, the 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 54 active projects in 11 countries. The reports identified generally inadequate mission monitoring systems to ensure host countries provided the contributions required under project agreements.

As of April 1, 1987, U.S.A.I.D./Sri Lanka had 11 active projects requiring total Government of Sri Lanka contributions of about \$203.2 million. This was 45 percent of the overall estimated project costs of approximately \$453.4 million. See Exhibit 1 for an analysis of A.I.D. and Government of Sri Lanka estimated funding requirements.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Singapore made a compliance audit of the Government of Sri Lanka contributions to A.I.D.-funded projects. The audit covered the 11 active projects requiring total contributions of about \$203.2 million. The audit was performed in April 1987.

The audit objectives were to (1) evaluate the adequacy of U.S.A.I.D./Sri Lanka procedures for monitoring Government of Sri Lanka project contributions and (2) determine if the Government provided its required contributions.

Questionnaires concerning host country contributions were distributed to and were answered by mission staff for the 11 active projects. Information provided by the questionnaires was used to evaluate U.S.A.I.D./Sri Lanka monitorship. In addition to the questionnaires, the audit work included a review of project documents and interviews with responsible officials of U.S.A.I.D./Sri Lanka, the Government of Sri Lanka and a technical assistance contractor. U.S.A.I.D./Sri Lanka comments on our draft report were received on August 27, 1987. Their comments have been incorporated in the report as appropriate and the full text of the comments are included as Appendix 1.

Review of internal administrative controls and compliance was limited to the issues raised in this report. The audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

U.S.A.I.D./Sri Lanka procedures were inadequate to effectively monitor Government of Sri Lanka contributions to A.I.D.-funded projects. The Government did not always provide its required contributions.

U.S.A.I.D./Sri Lanka initiated actions especially in the past year and prior to this audit to monitor the Government of Sri Lanka's contributions to A.I.D.-funded projects. For example, a comprehensive draft mission order was issued in March 1987 to establish procedures to ensure that required financial contributions were made. Also, starting with the quarter ended December 31, 1986, U.S.A.I.D. required that their quarterly project implementation reports identify the level of host country financial contributions provided and any problems in project staffing.

However, the Government's contributions were not always made. Additional controls were needed in U.S.A.I.D.'s monitoring system to ensure that host country contribution problems are identified and resolved in a timely manner.

This report recommends that U.S.A.I.D./Sri Lanka establish policies and procedures in specific areas for better controls over host country contributions.

1. U.S.A.I.D./Sri Lanka Monitoring of Host Country Contributions Needed Improvement.

Project agreements required the Government of Sri Lanka to contribute financial and other resources to A.I.D.-financed projects. A.I.D. handbooks required that U.S.A.I.D.s establish monitoring systems to ensure that the required contributions were made. The Government did not always provide its required contributions to projects especially in the area of project staffing. The inadequate contributions resulted in the inefficient use of A.I.D. funds and loss of economic benefits to the Government and people of Sri Lanka. U.S.A.I.D./Sri Lanka was not in a good position to mitigate these problems because it had not established an adequate monitoring system and the related controls to identify and resolve host country contribution problems.

Recommendation No. 1

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

- a. ensure the adequacy of the Government of Sri Lanka's accounting and reporting systems on host country contributions;
- b. obtain periodic reports from the Government of Sri Lanka on its staffing, financial, and logistical support contributions to A.I.D. financed projects;
- c. ensure the Government of Sri Lanka provides its required project contributions; and
- d. periodically determine the effects of the Government of Sri Lanka's failure to meet its staffing, financial, and logistical support contributions to projects and take appropriate timely actions such as redesigning projects or requesting refunds from the Government of Sri Lanka for inefficient use of U.S. Government funds.

Discussion

U.S.A.I.D./Sri Lanka project agreements stipulated a specific dollar amount of host country contributions and in most cases required the Government to provide a specified level of in-kind contributions such as project staffing. The agreements also required the Government of Sri Lanka to provide all resources, in addition to A.I.D. funds, to carry out the project effectively and in a timely manner. In accordance with A.I.D. Handbook 3, Appendix 6A, each project agreement also provided that:

- if A.I.D.-funded goods or services were not used effectively for project purposes because the Government of Sri Lanka did not comply with its obligation under the project agreement, A.I.D. may require the Government to refund the amount of disbursements for those goods or services.

A.I.D. Handbook 3, Chapter 11, stipulated that missions' monitoring of host country contributions was critical to project success. Project officers were required to assure that the host country provided its contributions on a timely basis by comparing planned versus actual host country inputs (e.g., financial, staffing and logistical support). In addition, A.I.D. Handbook 19 prescribed policy and procedural guidance for carrying out effective financial monitoring of host country contributions for project implementation. This guidance required mission controllers to :

- review and assure the adequacy of host country accounting and reporting systems on host country contributions;
- review project implementation from a financial management point of view to determine whether project objectives were met economically and efficiently by the application of funds for manpower, supplies, equipment and facilities from A.I.D. and host country funding sources; and
- provide financial analyses expertise to mission management of the causes and possible solutions in the event the host country is delinquent or shows other evidence of difficulty in providing its required contributions.

The primary purpose of this monitoring is to alert mission and host country management about potential implementation problems and enable the mission to make judgements as to the continuing appropriateness of project design and the need for in-depth evaluations.

U.S.A.I.D./Sri Lanka had taken actions to assure that the Government of Sri Lanka provided its required contributions. For example, agreements for at least five of the active projects included conditions precedent to funding or project covenants which required the Government to provide a specified level of project staff. Also, starting with the quarter ended December 31, 1986, U.S.A.I.D. required that their quarterly project implementation reports identify the level of host country financial contributions provided and any problems in project staffing.

In their comments to the draft report, U.S.A.I.D./Sri Lanka believed the audit should also give U.S.A.I.D. credit for the following actions: (1) establishment of comprehensive budgetary monitoring procedures, (2) analysis of the historical record of host country contributions for all past U.S.A.I.D. projects, and (3) research by the U.S.A.I.D. legal advisor on the issue of local currency accounting regarding U.S.A.I.D. agreements and funding under the Mahaweli projects.

Notwithstanding the good efforts by U.S.A.I.D./Sri Lanka to control host country contributions, there was no assurance that the Government of Sri Lanka contributions equivalent to about \$203.2 million would actually be provided. The Government did not always provide its required staffing, financial, and logistical support contributions to projects which resulted in the inefficient use of A.I.D. funds and loss of economic benefits to the Government and people of Sri Lanka. An inadequate monitoring system prevented U.S.A.I.D. from taking timely action to identify and resolve host country contribution problems. The following sections discuss these problems and U.S.A.I.D./Sri Lanka monitorship thereof.

Staffing - Project staffing is an essential component in most A.I.D.-financed projects in Sri Lanka and especially for projects with institutional development objectives. Therefore, the Government of Sri Lanka's failure to provide required project staffing may be the most serious and widespread host country contribution problem.

For example, the Water Supply and Sanitation Sector Project Agreement signed in August 1984 included a Condition Precedent that the Government fill 76 designated positions by a planned date. The agreement also included a special covenant that the Government ensure that sufficient qualified professional and support staff were hired in a timely manner to meet project requirements. The technical assistance contractor reported that as of January 1987, four of the 76 positions to be filled by January 1986, were vacant. The contractor also reported that an additional 25 "key staff positions" were also vacant. However, there was no available listing identifying the total number of key staff positions designated for the project. Furthermore, the Government of Sri Lanka had not formally accepted a specified number of staff positions other than the 76 originally included in the Condition Precedent. The staffing status of key positions during project implementation could not be determined because there was no periodic reporting of this information.

A consultant who reviewed this project in October 1985 reported that the failure of the Government of Sri Lanka to provide counterpart staffing resulted in inefficient use of the technical assistance contractor staff and related A.I.D. funding. In addition, the head of the Government of Sri Lanka implementing agency reported to U.S.A.I.D./Sri Lanka in September 1985 that counterpart staff problems may be the primary cause for serious delays in institutional development. The U.S.A.I.D. project officer estimated that the staffing problems resulted in at least a six month implementation delay. Based on the economic analysis in the project paper, this delay could result in a \$2.1 million loss in benefits for the first five-year period after A.I.D. participation in the project ends in 1989.

For some projects current data was not available on the number and significance of staff shortages. Exhibit 2 provides additional examples of staffing problems.

Financial- Financial contributions account for \$203.2 (45 percent) of the overall estimated project costs of approximately \$453.4 million for active A.I.D.-financed projects in Sri Lanka. The following examples show that the Government's failure to provide its intended or required financial contributions caused project implementation problems.

- The Government did not provide its required financial contributions under the Paddy Storage and Processing Project which had a project assistance completion date of June 30, 1984. The shortage resulted in not building a large milling complex under the project. As a result, A.I.D.-funded equipment purchased before April 1981 valued at more than \$342,000 was not utilized. At the time of our audit in April 1987 the Government implementing agency was still planning to build the complex, but did not have the required funding. This project was discussed in the Office of Inspector General Audit Report No. 5-383-87-5; dated July 7, 1987. Even if this equipment is eventually used; the unnecessary interest cost to the U.S. Government, based on the applicable U.S. Treasury interest rates over the six-year period the equipment was not used, amounted to about \$178,000.
- The Government did not purchase its share of insecticide as required for 1986 under the Malaria Control Project. The Government was to purchase the insecticide in July 1985 but did not purchase it until January 1986. The delay in making the purchase significantly increased the cases of malaria in 1986 and resulted in unnecessary costs (treatment costs, income loss and drug costs) of

about \$375,000 to the people of Sri Lanka. These projections were based on the economic and social analysis included in the project paper and discussions with the project officer.

- U.S.A.I.D./Sri Lanka increased its obligations under the Reforestation and Watershed Management Project by \$3.8 million in 1983 to accelerate the planting of trees. Tree planting costs were to be fully funded by the Government of Sri Lanka. However, due to constraints in the Government's funding for this project, U.S.A.I.D./Sri Lanka agreed to cover about 50 percent of these costs.

Generally, U.S.A.I.D./Sri Lanka did not have adequate information to determine if the Government of Sri Lanka provided its required financial contributions to projects.

Logistical Support - The Government of Sri Lanka did not provide the required logistical support to the technical assistance contractor under the Water Supply and Sanitation Sector Project. A consultant reported in October 1985 that vehicles, typewriters, office equipment, adequate office space and other support to be provided by the host country were not assigned or were marginally supplied. The consultant estimated that the inadequate support resulted in the contractor only being 50 percent effective the first three months of the contract. The contractor was paid a total of \$227,000 for work during this period.

U.S.A.I.D./Sri Lanka Monitoring - U.S.A.I.D./Sri Lanka procedures were inadequate to effectively monitor Government of Sri Lanka contributions to U.S.A.I.D. projects. A basic weakness was that U.S.A.I.D./Sri Lanka did not establish policies and procedures which required the Government to report on its project contributions. Although project agreements between U.S.A.I.D./Sri Lanka and the Government of Sri Lanka included a general provision that the Government furnish any project reports requested by A.I.D., none of the active agreements specifically required the Government to report on host country contributions.

In response to our questionnaire on host country contributions, the mission reported that the Government was providing periodic financial reports on host country contributions for only 3 of the 11 active mission-financed projects in Sri Lanka. However, discussions with U.S.A.I.D. project officers showed reports were provided for only two projects. These reports were submitted monthly or quarterly based on informal arrangements by the respective mission and Government project officers.

In the same questionnaire, the mission reported that the Government did not have, or U.S.A.I.D./Sri Lanka did not know if the Government had, adequate accounting systems to account specifically for host country contributions for 6 of the 11 active A.I.D.-financed projects. Concerning the remaining five projects, mission and Government officials said adequate systems did not exist for one project and mission officials said no accounting system reviews were performed to assure adequate systems existed under the other four projects.

When the Government reported on their contributions, U.S.A.I.D./Sri Lanka had no assurance that the reported information was accurate because they failed to review the Government's accounting and reporting systems for any of the 11 active A.I.D. financed projects. For example, the host country implementing agency for the Water Supply and Sanitation Sector Project reported total host country contributions as of March 31, 1987 were about \$674,000. As shown in Exhibit 3, about 77 percent of this amount was for unallowable (\$94,000) or questionable (\$424,200) contributions. In anticipation of the audit, the Government implementing office reviewed its accounting system and found it inadequate to account for host country contributions to the project. The office officials discussed the problem with the U.S.A.I.D./Sri Lanka project officer and new procedures were developed which should help resolve the problem. Additional examples of problems with the Government's accounting and reporting system are discussed in Exhibit 4.

Mission officials stated they were not fully aware of A.I.D. Handbook 19 requirements to ensure the adequacy of host country accounting and reporting systems on host country contributions.

U.S.A.I.D./Sri Lanka issued a draft mission order in March 1987 to improve U.S.A.I.D. monitorship of host country contributions. The mission order prescribed procedures to help ensure that Government of Sri Lanka financial contributions were provided. One procedure was to have a high level Government office report semi-annually on host country contributions to all A.I.D.-financed projects. However, at the end of our audit work in Sri Lanka, no definitive procedures had been established and no host country contribution reports had been submitted to U.S.A.I.D./Sri Lanka by the designated Government office.

Although U.S.A.I.D./Sri Lanka was monitoring the status of host country staffing for A.I.D.-financed projects, the examples of problems provided above and in Exhibit 2 showed the mission did not always know the staffing status and did

not always take timely action to resolve the staffing problems. This occurred because the mission did not establish policies and procedures specifying Government of Sri Lanka implementation agencies periodically report on the status of filling positions. In addition, the mission had not established policies and procedures for formally evaluating the effects of staffing shortages on meeting project objectives. These evaluations could identify either a need to redesign the project or reduce/realign the designated staff positions.

Mission officials said no refund was requested from the Government of Sri Lanka for the inefficient use of U.S. Government funds as a result of insufficient host country contributions in the three areas discussed above: staffing, financial and logistical support. Although the project agreements provided for such refunds, the officials said the mission did not have procedures for determining and requesting the amount of refund due.

Conclusion - U.S.A.I.D./Sri Lanka has taken positive actions in attempts to ensure the Government of Sri Lanka provided its required contributions. Nevertheless, the mission still needs to improve its monitorship of host country contributions. The mission needs policies and procedures to ensure that the Government has adequate systems to account for and report on total contributions including staffing, financial, and logistical support. In addition, they should develop procedures to identify the effects on project implementation when the Government does not provide its required contributions and take the appropriate timely action on the problems.

Management Comments

U.S.A.I.D./Sri Lanka believed its policies and procedures for monitoring host country contributions were generally adequate and, therefore, did not fully concur with the recommended actions. The mission was concerned that the report did not fully recognize the actions taken by the mission to improve its monitoring of host country contributions prior to the audit. The mission identified several of these actions.

U.S.A.I.D./Sri Lanka believed the policies and procedures drafted in early 1987 and used by the mission were generally appropriate to ensure the adequacy of the Government of Sri Lanka's accounting and reporting systems on host country contributions. The mission, however, did concur that the policies and procedures should be refined to improve controls in this area.

U.S.A.I.D./Sri Lanka stated that new project agreements will include a specific covenant requiring the Government of Sri Lanka to report regularly on the Government's project contributions. However, the mission did not believe a similar requirement was needed for ongoing projects because the mission project officers already prepared reports on host country contributions under these projects.

U.S.A.I.D./Sri Lanka did not concur that policies and procedures should be established to periodically determine the effects of the Government's failure to provide its required project contributions and to take appropriate timely actions such as redesigning projects or requesting refunds from the Government of Sri Lanka for inefficient use of U.S. Government funds. The mission contended that any additional reporting requirements in this area would simply repeat information already received by mission management.

Office of Inspector General Comments

Regarding U.S.A.I.D.'s comments that the audit report did not fully recognize the extent of U.S.A.I.D. efforts, the Office of the Inspector General notes that audit reports primarily focus on problems and the related recommendations which require management attention. However, the report discussed in several places that prior to our audit U.S.A.I.D./Sri Lanka initiated good efforts to improve its monitoring of host country contributions to A.I.D.-funded projects. In addition, U.S.A.I.D./Sri Lanka's comments on their additional efforts have been recognized and added in the report.

Whereas the mission recognized in their comments that some refinements in their policies were necessary, we believe the audit report identified the need to further establish policies and procedures in specific areas to improve the mission's controls over Government of Sri Lanka contributions to A.I.D.-financed projects.

U.S.A.I.D./Sri Lanka comments were responsive to the recommended actions to ensure the adequacy of the Government of Sri Lanka's accounting and reporting systems on host country contributions. Therefore, part (a) of the recommendation is considered resolved and will be closed when the mission provides evidence that corrective action has been implemented.

U.S.A.I.D./Sri Lanka comments were not responsive to the other three parts of the recommendation. Therefore, these parts are unresolved and will be retained.

This report supports that U.S.A.I.D./Sri Lanka did not have adequate policies and procedures to ensure the Government of Sri Lanka provided its required contributions. In our opinion, periodic reporting by the Government of Sri Lanka on its contributions for ongoing projects along with the planned reporting requirement for new projects will improve U.S.A.I.D./Sri Lanka controls over host country contributions. Part (b) of the recommendation can be closed when the mission provides evidence that the recommended action has been implemented. Part (c) of the recommendation can be closed when the mission provides evidence that parts (a) and (b) have been implemented.

U.S.A.I.D./Sri Lanka could also improve its monitorship of host country contributions by developing procedures to assess the impact of inadequate or untimely Government of Sri Lanka contributions to projects and to take appropriate action when such problems occur. The procedures could require that the project officer formally prepare such an assessment. For example, the assessment could identify if (1) the stipulated staffing levels were needed, (2) the project needed to be redesigned when the required resources were not provided within a specified timeframe, and (3) inadequate host country contributions resulted in inefficient use of U.S. Government funds.

The procedures should also require timely U.S.A.I.D. action when host country contributions problems occur as indicated in the assessments. In this way, U.S.A.I.D. could be in a better position to ensure compliance with the project agreements and at the same time protect the interests of the U.S. Government. Part (d) of the recommendation can be closed when U.S.A.I.D./Sri Lanka provides evidence that it has completed the recommended action.

Additional U.S.A.I.D./Sri Lanka's comments concerning specific U.S.A.I.D. projects were considered and clarifications and revisions to this report were made where deemed appropriate.

B. Compliance and Internal Control

Compliance

The audit disclosed two major compliance weaknesses.

- U.S.A.I.D./Sri Lanka did not comply with A.I.D. regulations in Handbooks 3 and 19 regarding monitorship of host country contributions to A.I.D.-financed projects.
- The Government of Sri Lanka did not always provide its project contributions as required under the project agreements.

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

Internal Control

The audit disclosed that internal control systems were not in place or working to ensure that the financial and other commitments of the Government of Sri Lanka to support A.I.D.-financed projects were being met. The audit review of internal controls was limited to the findings presented in this report.

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PART III - EXHIBITS AND APPENDICES

Analysis of A.I.D. and Government of
Sri Lanka Estimated Funding Requirements
for Active Projects as of April 1, 1987

<u>Project No.</u>	<u>Project Title</u>	<u>Estimated Cost</u>			<u>Total</u>
		<u>A.I.D.</u>	<u>Government Sri Lanka</u> (in \$ thousands)	<u>Other Donors</u>	
383-0043	Malaria Control	\$ 29,000	\$ 48,100	\$ 990	\$ 78,090
383-0055	Reforestation and Watershed Management	8,293	5,700	-	13,993
383-0056	Mahaweli Basin Development Phase I	10,000	5,755	1,625	17,380
383-0058	Diversified Agricul- tural Research	11,400	5,200	-	16,600
383-0062	National Institute of Health Services	1,900	1,200	1,580	4,680
383-0073	Mahaweli Basin Development II	110,000	112,000	29,000	251,000
383-0075	Mahaweli Environment	5,000	1,900	-	6,900
383-0082	Private Enterprise Promotion	4,000	3,600	-	7,600
383-0088	Water Supply and Sanitation Sector	12,300	7,300	-	19,600
383-0080	Irrigation Systems Management	18,600	9,700	-	28,300
383-0083	Agricultural Planning and Analysis	6,600	2,700	-	9,300
		<u>\$217,093</u> *****	<u>\$203,155</u> *****	<u>\$33,195</u> *****	<u>\$453,443</u> *****

Examples of Inadequate Host Country Staffing
for A.I.D.-Financed Projects

This exhibit provides additional examples of inadequate host country staffing for A.I.D.-financed projects.

The agreement for the Diversified Agriculture Research Project approved in August 1984 required as a covenant that the Government of Sri Lanka ensure that sufficient numbers of qualified professional and support staff are hired and/or assigned in a timely manner to meet the project requirements. The project paper specified that the Department of Agriculture would hire 88 new staff members. This number was reduced in 1985 to 67 by the Government's Ministry of Agriculture on a request made by the Government's Ministry of Finance and Planning. This number was further reduced by the Government's Treasury to 39 new positions. U.S.A.I.D./Sri Lanka stated that at a minimum 67 full staff for 1986 should be hired. As of March 1987, only 37 of the 67 minimum staff required had been hired. Thus, after 2 1/2 years, the Government had hired only 55 percent of the minimum 67 staff required.

The Government of Sri Lanka agreed as a Condition Precedent for signing the agreement for the Irrigation System Management Project that the annual work plans should contain the names and summary qualifications of individuals who have filled new positions. The agreement was signed August 25, 1986. Only 4 of the 40 positions to be filled by January 1987 were filled as of February 1987.

A Malaria Control Project amendment signed in April 1984 included a Condition Precedent that the Government would staff 107 key vacancies in the implementing agency by April 1985. The latest staffing data available at U.S.A.I.D./Sri Lanka showed that 82 of the 107 vacancies had been filled as of March 1985. No subsequent staffing reports on this project were received by U.S.A.I.D./Sri Lanka and mission officials did not know how many of the positions remained vacant as of April 1987. An August 1983 amendment to the Malaria Control Project reported that the Government of Sri Lanka's failure to provide the required staff was the most critical constraint to project progress. The Project Assistance Completion Date was revised from June 30, 1982 to October 30, 1987. In their comments to the draft report, U.S.A.I.D./Sri Lanka indicated that the vacancies should

have been filled by July 1986. However, their comments did not provide definitive information as to whether the vacancies were in fact filled.

The agreement for the Agricultural Planning Analysis Project approved in August 1986 required as a Condition Precedent for disbursement that an agricultural planning unit should be formed in the major implementing agency by November 1986. The unit had not yet been formed by the end of April 1987 and A.I.D. had not spent any money under the project. The economic analysis in the project paper projected that incremental benefits to the Government of Sri Lanka would begin to accrue in 1992. For example, benefits in 1992 and 1997 were projected at \$1.8 million and \$8.9 million, respectively. Based on the analysis and discussions with the project officer, a six month delay would result in a loss of benefits to the Government of Sri Lanka of about \$4.4 million during the five-year period beginning January 1, 1992.

Unallowable and Questionable
Host Country Contributions Reported
as of March 31, 1987 Under the
Water and Sanitation Project

<u>Category of Costs</u>	<u>Amount Unallowed or Questioned</u>	<u>Reason</u>
Government customs taxes	\$ 67,319	Unallowable: Not a Government expense. Regional legal advisor and project officer stated this was not an allowable host country contribution.
Consultant/ Contractor Services	\$ 26,785	Unallowable: Paid by the World Bank. Regional legal advisor and project officer stated this was not an allowable host country contribution.
Building	\$392,857	Questionable: There was no receipt of purchase or document of appraised value. Government noted in its report on contributions that this amount was subject to confirmation. 1/
Lands	\$ 27,247	Questionable: There was no receipt of purchase or document of appraised value. 1/
Rent	\$ 3,571	Questionable: This was not an expense to the Government. The space was for the technical assistance contractor, but was in a Government building and was not considered rentable property and there was no document of appraised value for the space.

1/ In responding to our draft report, U.S.A.I.D./Sri Lanka stated that documentation on the costs of building and lands were available at the Government of Sri Lanka implementing agency and at U.S.A.I.D./Sri Lanka. However, at the time of the audit these documents were not available.

Examples of Problems with the Government
of Sri Lanka's Accounting and Reporting
Systems for Host Country Contributions

The host country implementing agency for the Reforestation and Watershed Management Project did not submit periodic reports on host country contributions. In lieu of such reports, U.S.A.I.D. officials used the Government's annual budget submissions to identify the level of host country contributions. This procedure did not identify the level of host country contributions. For example, using the 1987 budget submission the project officer reported to mission management that host country contributions in 1985 for capital expenditures under one subproject amounted to about \$394,000. However, the Government's actual contributions were only about \$36,200. The difference included about \$350,000 which was reimbursed under this subproject by U.S.A.I.D./Sri Lanka and about \$7,800 for unallowable inter-Government business taxes. The Government of Sri Lanka project director said they would have no problem submitting quarterly host country contribution reports to the mission on capital expenditures. However, the official added that their accounting system did not allocate an appropriate share of recurrent expenditures to individual projects.

The host country implementing agency for the Mahaweli Basin Development Phase II Project also did not submit periodic reports on host country contributions. In response to the questionnaire on host country financial contributions, the project officer responded that he did not know if the host country implementing agency had an accounting system to account specifically for project contributions. To identify how much the Government of Sri Lanka contributed to the project, a mission official reviewed project reports at the implementing agency and reported to mission management that host country reports showed (using the exchange rate at the time the project agreement was signed) the host country had provided \$62 million through December 1986. However, the official also noted that an earlier report showed host country contributions as of March 31, 1986 were \$105 million. The mission official who obtained the data did not know why the earlier report showed more contributions or the reason for the difference in the reported amounts. The host country contribution required under the project agreement was \$112 million.

(4) ACTION AID2 INFO AMB DCM

Appendix 1
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VZCZCGP0742

PP RUIBCP
DE RUFRCM #5760/01 2381131
ZNR UUUUU ZZH
P 261125Z AUG 87
FM AMEMBASSY CCLOMBO
TO AMEMBASSY SINGAPORE FRICRITY 3217
BT
UNCLAS SECTION 01 OF 03 COLOMBO 05760

LOC: 455-456 198
26 AUG 87 0869
CN: 00201
CHRG: A
DIST: A

AIDAC

E.C 12356: N/A

SUBJECT: DRAFT AUDIT REPORT ON AUDIT OF CONTRCLS CVFR
- GOVERNMENT OF SRI LANKA CONTRIBUTIONS TO AID
- FINANCIAL PROJECTS IN SRI LANKA

RFF: A) DRAFT REPORT

1. MISSION APPRECIATES THE OPPORTUNITY TO COMMENT ON THE SUBJECT REPORT. THE MISSION BELIEVES THAT THE REPORT IS NOT FULLY BALANCED AND THAT THE RECOMMENDATIONS DO NOT FULLY REFLECT A) THE SIGNIFICANT MISSION INITIATED MANAGEMENT PROCEDURES AND COMPREHENSIVE ANALYSIS CONCERNING NOTICE OF RIG/A INVESTIGATION B) THE DESCRIPTION OF PROJECT STATUS CONVEYED BY INDIVIDUAL PROJECT OFFICERS TO RIG/A, AND C) THE EARLIER RIG/A FAVORABLE, AND WE BELIEVE, ACCURATE ASSESSMENT OF THE MISSION'S HANDLING OF THE HOST COUNTRY CONTRIBUTION ISSUE. WE BELIEVE THAT THE REPORT WOULD BE MORE ACCURATE, IF THROUGHOUT, THESE FACTORS WERE MORE PRECIPUANTLY NOTED, ESPECIALLY IN THE EXECUTIVE SUMMARY AND IN THE RECOMMENDATIONS THEMSELVES. SPECIFICALLY, IN THE INTERESTS OF BALANCE AND FAIRNESS THE REPORT SHOULD NOTE THAT PRIOR TO NOTICE OF RIG/A INVESTIGATION AND ARRIVAL IN SRI LANKA, THE MISSION DID ALL OF THE FOLLOWING AT ITS OWN INITIATIVE: (1) IT ESTABLISHED BUDGETARY MONITORING PROCEDURES WHICH WERE COMPREHENSIVE AND ATYPICAL OF MOST AID MISSIONS. THOSE PROCEDURES WERE BASED ON AN IN-DEPTH STUDY OF THE BUDGETARY PROCESS AND WE KNOW ARE UNMATCHED BY THE ACTIVITY OF ANY OTHER DONOR IN COUNTRY. (2) THE MISSION CONDUCTED AN EXTENSIVE, 45 PAGE-SINGLE SPACE ANALYSIS OF THE HISTORICAL RECORD OF HOST COUNTRY CONTRIBUTIONS FOR ALL OF OUR PAST PROJECTS. THIS ANALYSIS WAS IN FACT USED BY THE AUDITOR DURING HIS VISIT. (3) THE MISSION LEGAL ADVISOR RESEARCHED BOTH THE ISSUE OF LOCAL CURRENCY ACCOUNTING WITH RESPECT TO OUR AGREEMENTS AND FUNDING UNDER OUR MAHAWELI PROJECTS. AGAIN THIS MATERIAL WAS USED BY THE AUDITOR.

AS THE AUDIT REPORT SAYS (PAGE 10) QUOTE THE PRIMARY PURPOSE OF THIS MONITORING IS TO ALERT MISSION AND HOST COUNTRY MANAGEMENT ABOUT POTENTIAL IMPLEMENTATION

PROBLEMS. UNQUOTE. IN THAT SENSE THE MISSION BELIEVES THAT CERTAINLY SINCE THE BEGINNING OF 1967 ALL OF THE ABOVE ACTIONS COMBINED WITH MISSION MANAGEMENT ATTENTION HAVE DONE PRECISELY THAT. CORRECTIVE ACTIONS IN EARLY 1967 ARE NOT RECOGNIZED, AND INSTEAD THE IMPRESSION IS GIVEN THAT THE SUBSTANTIAL CHANGES WE INITIATED WERE DONE OR ARE NOW BEING DONE AT THE RECOMMENDATION OF RIG/A. SUCH WAS NOT THE CASE.

2. AS RIG/A AWARE, DURING HIS VISIT RIG/A ALSO WAS LOOKING AT THE STATUS OF PROJECT COMPLETION REPORTS. IN HIS DRAFT REPORT ON THAT SUBJECT RIG/A NOTED THAT 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 OF THAT EARLIER REPORT NOTED THAT A PREVIOUS SURVEY OF 11 COUNTRIES FOUND THAT MISSIONS HAD NOT DETERMINED THE ACTUAL AMOUNT OF THE HOST GOVERNMENTS CONTRIBUTION FOR 42 OF THE 49 PROJECTS, AND HE WENT ON TO TELL US THAT MOST MISSIONS HAD NOT EVEN ADDRESSED THE ISSUE IN ANY WAY.

3. IN VIEW OF THAT OVERALL AGENCY PERFORMANCE, MISSION PERFORMANCE TO MONITORING THE HOST COUNTRY CONTRIBUTION WOULD APPEAR TO BE EXCELLENT. IN OUR CONVERSATIONS WITH RIG/A, WE WERE TOLD THAT THE PROCEDURES WHICH WE HAD INITIATED PRIOR TO THE ARRIVAL OF THE RIG/A VISIT WERE COMPREHENSIVE AND WOULD BE SHARED WITH OTHER MISSIONS AS AN EXAMPLE THAT OTHER MISSIONS COULD FOLLOW. WE, THEREFORE, ARE SURPRISED BY THE DRAFT REPORT RECOMMENDING A SERIES OF CORRECTIVE ACTIONS, WHICH CERTAINLY MAY NEED REFINEMENTS AS WE BECOME MORE KNOWLEDGABLE OF THE AREA, BUT WHICH WERE IN FACT IMPLEMENTED PRIOR TO THE RIG/A VISIT. WE BELIEVE THE REPORT NEEDS TO BE SUBSTANTIALLY MODIFIED PRIOR TO ISSUANCE TO CORRECT THAT IMPRESSION.

4. OUR COMMENTS BELOW ARE LISTED BY THE INDIVIDUAL PORTIONS OF THE RECOMMENDATION. RECOMMENDATION A, C, AND D, WOULD REQUIRE SLIGHT ADJUSTMENT WHILE B, IS DUPLICATIVE AND SHOULD BE WITHDRAWN. OUR CONCURRENCE
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TO THE RECOMMENDATIONS ARE SUBJECT TO THESE ADJUSTMENTS.

Appendix 1
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4.A. QUOTE RECOMMENDATION NO 1.: A. WE RECOMMEND THAT U.S.A.I.D./SRI LANKA ESTABLISH POLICIES AND PROCEDURES TO ENSURE THE ADEQUACY OF THE GOVERNMENT OF SRI LANKA'S ACCOUNTING AND REPORTING SYSTEM ON HOST COUNTRY CONTRIBUTIONS UNQUOTE MISSION COMMENTS: MISSION BELIEVES THAT THIS RECOMMENDATION SHOULD BE SUBSTANTIALLY MODIFIED AS IN FACT SUCH POLICIES AND PROCEDURES WERE DRAFTED AND USED BY THE MISSION AT MISSION INITIATIVE PRIOR TO THE ARRIVAL OF THE RIG/A. AS RIG/A AWARE, THESE WERE COMPREHENSIVE PROCEDURES WHICH INCLUDED THE TIMING OF BUDGETARY CONTRIBUTIONS VIS A VIS THE GOVERNMENT OF SRI LANKA BUDGETARY CYCLE AND INVOLVED MISSION SUPPORT STAFF, TECHNICAL RESOURCES, GOVERNMENT LINE MINISTRIES AS WELL AS KEY OFFICIALS OF THE MINISTRY OF PLANNING AND FINANCE. THE BEST EVIDENCE OF THIS IS THAT AS A RESULT OF THOSE PROCEDURES, THIS YEAR WE WERE ABLE TO PRESERVE A NUMBER OF OUR PROJECTS' FUNDING LEVELS FROM SUBSTANTIAL CUTS AS A RESULT OF GOVERNMENT DEFENSE BUDGETS. OTHER DONORS IN COUNTRY HAVE NOT BEEN AS FORTUNATE AND HAVE BEEN SEVERELY CUT. USAID/COLOMBO PASSED OUR PROCEDURES TO RIG/A WHO SAID HE WOULD BE CIRCULATING THEM TO OTHER MISSIONS AS A EXAMPLE OF WHAT COULD BE DONE IN THIS DIFFICULT AREA. A RECOMMENDATION WHICH SAYS THAT THE MISSION SHOULD REVIEW AND REFINE ITS EXISTING POLICIES TO FURTHER IMPROVE THEM WOULD APPEAR TO BE APPROPRIATE.

4.B. RECOMMENDATION NO 1.: B. QUOTE CERTAIN PERIODIC REPORTS FROM THE GOVERNMENT OF SRI LANKA ON ITS STAFFING, FINANCIAL AND LOGISTICAL SUPPORT CONTRIBUTIONS TO AID FINANCIAL PROJECTS; UNQUOTE. WE BELIEVE THAT THIS RECOMMENDATION SHOULD BE WITHDRAWN SINCE WE DO IN FACT GET REGULAR REPORTS OF STAFFING AND OTHER ASPECTS OF PROJECT MANAGEMENT THROUGH OUR PROJECT OFFICERS AS REQUIRED. WE ARE RELUCTANT TO ESTABLISH DUPLICATE REPORTING SYSTEMS WHERE THEY ARE NOT NECESSARY AND NOT AN AGENCY REQUIREMENT. STAFFING LEVELS, WHICH HAVE BEEN OF LONGTIME MISSION CONCERN, ARE A REGULAR TOPIC AT PROJECT IMPLEMENTATION REVIEWS SO WE BELIEVE THEY ARE IN FACT RECEIVING MANAGEMENT ATTENTION. THIS IS FORCEFULLY BEST EVIDENCED BY THE FACT THAT ONE WAY RIG/A IDENTIFIED THIS AS A PROBLEM WAS BY MISSION REPORTS ON FILE WHICH CLEARLY NOTED STAFFING PROBLEMS. FOR NEW PROJECTS A REQUIREMENT ON REPORTING OF HOST COUNTRY CONTRIBUTION HAS BEEN ADDED TO THE PROJECT AGREEMENT. (SEE PARA 4.C. BELOW).

4.C. RECOMMENDATION NO 1.: C. QUOTE ENSURE THE GOVERNMENT OF SRI LANKA PROVIDES ITS REQUIRED PROJECT CONTRIBUTION. UNQUOTE MISSION COMMENT: WHILE WE BELIEVE THE MISSION PROCEDURES THAT WE HAVE ALREADY PUT IN PLACE DESCRIBED IN PARAS 2 AND 4.A. ABOVE WILL HELP ENSURE THAT, THIS YEAR IN OUR NEW PROJECTS THE MISSION HAS TAKEN THE INITIATIVE WHERE APPROPRIATE TO

ADD A SPECIFIC COVENANT THAT THE GOVERNMENT OF SRI LANKA REPORT REGULARLY ON THE ECST COUNTRY CONTRIBUTION TO DATE. COPIES OF THE APPLICABLE AGREEMENT WILL BE PASSED TO RIG/A UPON FINAL NEGOTIATION AND SIGNING. THUS WE BELIEVE THAT THIS REQUIREMENT ALREADY HAS BEEN FULLY MET.

4.E. 1. . .E. QUOTE PERIODICALLY DETERMINE THE EFFECTS OF THE GOVERNMENT OF SRI LANKA'S FAILURE TO MEET ITS STAFFING, FINANCIAL, AND LOGISTICAL SUPPORT CONTRIBUTIONS TO PROJECTS AND TAKE APPROPRIATE TIMELY ACTIONS SUCH AS REDESIGNING PROJECTS OR REQUESTING REFUNDS FROM THE GOVERNMENT OF SRI LANKA FOR INEFFICIENT USE OF U.S. GOVERNMENT FUNDS. UNQUOTE THE MISSION BELIEVES THAT THE COMBINATION OF AN EXTENSIVE BUDGETARY REVIEW PROCESS TOGETHER WITH PERIODIC REVIEWS, PROJECT IMPLEMENTATION REPORTS AND DAY TO DAY MONITORING OF PROJECTS IN FACT MEETS THIS REQUIREMENT. ANY ADDITIONAL REPORTING REQUIREMENTS, NO MATTER HOW STRUCTURED, WOULD SIMPLY REPEAT THE SAME INFORMATION WE ALREADY RECEIVE. THE REPORT FAILS TO RECOGNIZE THE RANGE OF OPTIONS A MISSION HAS WHEN DEALING WITH ADMITTEDLY DIFFICULT FUNDING ISSUES. REQUESTING REFUNDS IS REALLY THE LAST OPTION, BUT MORE IMPORTANT IN TERMS OF ACHIEVING OUR DEVELOPMENT OBJECTIVE IS TO FOCUS ON SOLVING FUNDING

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PROBLEMS BEFORE THEY REACH A POINT WHERE A REFUND REQUEST IS NECESSARY. WE BELIEVE WE ARE FULLY MEETING THE REQUIREMENT AND THAT THE RECOMMENDATION SHOULD BE WITHDRAWN.

5. SOME SPECIFIC DESCRIPTIONS OF PROJECT STATUS NEED TO BE ADJUSTED AS WELL:

5.1. MALARIA CONTROL PROJECT: USAID TAKES EXCEPTION TO THE STATEMENTS MADE REGARDING POSITION VACANCIES IN THE ANTI MALARIA CAMPAIGN. THE GSL IS IN FULL COMPLIANCE WITH SECTION 5.2 AND 5.3, DISBURSEMENT OF LOAN FUNDS, OF THE PROJECT LOAN & GRANT AGREEMENT WHICH ONLY REQUIRES "EVIDENCE THAT THE COOPERATING COUNTRY IS MAKING SATISFACTORY PROGRESS IN FILLING ANY VACANT STAFF POSITIONS...AS REQUIRED, TO CARRY OUT THE APPROVED PLAN OF ACTION." AS EXPLAINED BY THE PROJECT OFFICER, 82 OF THE 107 VACANCIES HAD BEEN FILLED AND THAT 117 WERE IN TRAINING FOR AMC POSITION. ALL OF THESE PERSONS WOULD HAVE COMPLETED THEIR COURSES AND BEGUN WORK BY JULY 1, 1986. THERE IS A LETTER IN THE PROJECT FILES TO THIS EFFECT. IT IS THEREFORE INCORRECT TO STATE THAT USAID DID NOT KNOW HOW MANY POSITIONS REMAINED VACANT.

WHILE IT IS CORRECT THAT THE GSL DID NOT PURCHASE ITS MATERIALS ON TIME, IT IS ERRONEOUS TO IMPLY THAT THE "UNNECESSARY COSTS" WHICH OCCURRED WERE PROJECT FUNDED. ALL OF THESE "COSTS" WERE BORNE BY THE GSL. FURTHER, USAID ONLY COULD HAVE ASSISTED IN ALLEVIATING THESE "COSTS" HAD WE IGNORED THE CONDITIONS PRECEDENT TO THE PROJECT LOAN & GRANT AGREEMENT. INSTEAD, USAID INSISTED THAT THE GSL COMPLY WITH THE TERMS OF THE PROJECT LOAN AND GRANT AGREEMENT BEFORE USAID AUTHORIZED DISBURSEMENT OF LOAN FUNDS FOR MALATHION.

5.2. PADDY STORAGE AND PROCESSING PROJECT, 383-0041, P. 13-14- IT IS NOT ENTIRELY CORRECT TO SAY THAT THE MILL WAS NOT INSTALLED BECAUSE OF LACK OF GSL FUNDS WHEN TOTAL CONTRIBUTION IN RUPEES 167 MILLION GREATLY EXCEEDED THE RS.71 MILLION SPECIFIED IN THE AGREEMENT. SECURITY CONSIDERATIONS IN THE AREA ALSO AFFECTED THE INSTALLATION AS WELL AS BUDGET ONES. THE INTEREST CALCULATION DOES NOT SPECIFY THE RATE USED. THE MISSION PRESUMES IT IS A VARIABLE RATE BASED ON USG RATE OVER THE PERIOD IN QUESTION, BUT IT IS NOT POSSIBLE TO DETERMINE HOW THE HIGH FIGURE IS CALCULATED FROM THE INFORMATION PROVIDED IN THE TEXT.

5.3. AGRICULTURAL PLANNING AND ANALYSIS, EXHIBIT 2, P.3 OF 3 - THE STATEMENT THAT \$4.4 MILLION IN BENEFITS TO GSL WILL BE LOST DUE TO A SIX MONTH DELAY IS UNSUPPORTED AND THE MISSION IS UNCLEAR HOW THESE NUMBERS CAN BE ARRIVED AT. THEY DO NOT SEEM TO REFLECT THE FACT THAT THE ECONOMIC ANALYSIS OF THE PROJECT SHOWS INCREMENTAL BENEFITS BEGINNING TO

ACCRUE ONLY IN YEAR 6.

5.4. WATER SUPPLY AND SANITATION SECTOR PROJECT, EXHIBIT 3, P-17. IT IS NOT ACCURATE TO SAY THAT 77 PERCENT OF THE HOST COUNTRY CONTRIBUTIONS WAS FOR UNALLOWABLE, OR QUESTIONABLE CONTRIBUTIONS. RECEIPT AND DOCUMENTATION FOR THE PURCHASE OF LANDS AND BUILDING ARE AVAILABLE WITH THE IMPLEMENTING AGENCY, THE NATIONAL WATER SUPPLY AND DRAINAGE BOARD. DOCUMENTATION IS ALSO AVAILABLE IN USAID AS TO OWNERSHIP AND COSTS OF THE LANDS AND BUILDING.

6. CONCLUSION: MISSION BELIEVES THAT DRAFT REPORT AND RECOMMENDATION WOULD BENEFIT FROM A REDRAFT TAKING MISSIONS COMMENTS INTO CONSIDERATION. WE BELIEVE, WITH THE PROCEDURES IMPLEMENTED SINCE THE BEGINNING OF 1987, THAT THE MISSION IN FACT ALREADY HAS MET THE MONITORING REQUIREMENTS WHICH ICFR WE AND RIG/A AGREE SHOULD BE IN PLACE. MISSION REQUESTS THE OPPORTUNITY TO SEE AND COMMENT AMENDED DRAFT REPORT PRIOR TO ISSUANCE OF FINAL REPORT. SFAM

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