

AUDIT OF
USAID/YEMEN'S AGRICULTURAL DEVELOPMENT
SUPPORT PROGRAM'S FRUIT TREE
IMPROVEMENT FUND PROJECT NO. 279-0052

AUDIT REPORT NO. 3-279-88-03
JANUARY 22, 1988

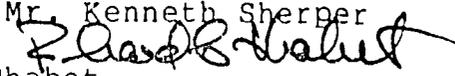
UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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January 22, 1988

MEMORANDUM FOR DIRECTOR, USAID/Yemen, Mr. Kenneth Sherper

FROM: RIG/A/Nairobi, Richard C. Thabet 

SUBJECT: Audit of USAID/Yemen's Agricultural Development
Support Program's Fruit Tree Improvement Fund

This report presents the results of an audit of the Fruit Tree Improvement Fund, established under the Agricultural Development Support Program.

The draft report was submitted to USAID/Yemen for comments and those comments are included in the report. The report contains two recommendations. Please provide written comments within 30 days of any additional information relating to actions planned or taken to implement the report's recommendations.

We appreciate the cooperation and courtesy extended to our staff during this audit.

Background

The Agriculture Development Support Program (ADSP), which started in June 1979, is a 10 to 15 year program which complies with requirements of Title XII of the Foreign Assistance Act of 1961 as amended. Title XII of the Foreign Assistance Act is titled "Famine Prevention and Freedom From Hunger" and prescribes the use of land-grant and other eligible U.S. universities to participate in institutional development and research in the agricultural sector of less developed countries.

The ADSP will eventually total \$137.8 million. It was being implemented by the Consortium for International Development (CID). CID operates the program, consisting of five subprojects, through three principal universities, Oregon State University, New Mexico State University and California Polytechnic State University. Oregon State University was implementing three subprojects which relate to administrative and logistical support (Called CORE I), a poultry extension and training activity, and development of a Faculty of Agriculture

within the University of Sanaa. New Mexico State University was responsible for the Ibb Secondary Agricultural School. The California Polytechnic State University at Pomona was implementing the Horticulture Improvement and Training Subproject (HITS).

The Fruit Tree Improvement Fund was undertaken by CID and the MAF and began under the CORE I subproject as a pre-implementation activity of the HIT Subproject. HITS was intended to expand Yemen's capacity to support increased fruit production through extension, plant production, training, and delivery of disease-free planting stock to the fruit sub-sector. The Fruit Tree Improvement Fund was started partially with ADSP funds. USAID/Yemen, through HITS, financed the importation of 26,700 citrus fruit trees at a cost of about \$300,000. Of these, 20,000 trees were donated to the people affected by the 1983 earthquake disaster. The remaining 6,700 trees cost A.I.D. about \$62,645 and were used, as seed capital, to start the Fruit Tree Improvement Fund. These trees were, in effect, sold to farmers in Yemen and the receipts used to start the fund. According to USAID/Yemen officials, the theory of this fund was to have some sort of self-sustaining mechanism to import or grow fruit trees, sell them to farmers, and replenish them with the sales proceeds. These activities, among others, were conducted at the Al-Irra and Al-Jarouba horticulture stations.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Nairobi (RIG/A/N) made a financial and compliance review of the Fruit Tree Improvement Fund as a part of a much broader audit of the Agricultural Development Support Program. The results of the broader review will be later reported in a series of reports covering the Consortium For International Development, Oregon State University, New Mexico State University, California Polytechnic State University, local support costs, and a review of economy, efficiency, and program results. This review of the Fruit Tree Improvement Fund had two objectives: (a) to determine the amount of funds flowing through the account, and (b) to determine the adequacy of internal controls over this fund.

To accomplish these objectives, we reviewed bank statements related to the Fruit Tree Improvement Fund, assessed the procedures used with the fund, and discussed the issues with CID and USAID/Yemen. The analysis of bank statements covered the period from June 1983 to June 30, 1987. Due to the unclear title of this fund and political sensitivities related to it,

we did not contact any Yemeni Government Official who might have been directly connected with the fund and we did not attempt to determine the source or use of funds either deposited or withdrawn from the account. As a result, we were not able to answer questions related to either source or use of funds. For the purpose of this report, the Yemeni Rial is the official currency. Between 1983 and 1987, the Yemeni Rial fluctuated from about YR 5 to over YR 10 per U.S. \$1. At the time of this review, U.S. \$1 equaled 9.75 Yemeni Rials. Thus, the exact U.S. Dollar equivalent was not available and the dollar equivalents shown in this report are illustrative only.

Our fieldwork in Yemen was done during the period November 10 to November 12, 1987. Except as stated above, this review was made in accordance with generally accepted government auditing standards.

Results of Audits

The audit showed that (a) the Yemeni Rials (YR) equivalent of over U.S. \$1.5 million (YR 14.7 million) had been deposited in this fund; (b) the exact amount of project related generations was not known; and (c) procedures and internal controls were inadequate to identify the source of deposited funds or to assure that withdrawn funds were used for project purposes.

To improve fund controls, this report recommends changes in the banking authorizations and requires the Mission to specify procedures to ensure adequate fund accounting.

The Fruit Tree Improvement Fund Lacked Necessary Controls -
Although deposits into the Fruit Tree Improvement Fund exceeded the YR equivalent of U.S. \$1.5 million (YR 14.7 million), exact amounts generated by the HTS projects were not known. The internal controls and procedures covering financial deposits and withdrawals were inadequate. The Fruit Tree Improvement Fund was not mentioned by either the agreement or Project Implementation Letters. Nevertheless, some criteria were provided by several documents interchanged by CID and MAF. According to these documents, the funds generated by the sale of trees under the project were to be placed in an account to be jointly administered by the Ministry of Agriculture and Fisheries (MAF) and CID. The loss of control occurred because the grant agreement and the Project Implementation Letters were silent as to how the cash reflows were to be used. In addition, there were no procedures in place to control these funds. As a result, the fund was vulnerable to possible abuse, and funds withdrawn from the account might not always have been used for project related purposes.

Discussion - The Fruit Tree Improvement Fund was started around January 1983. Funds were deposited into an interest bearing savings account at the International Bank of Yemen. As of June 30, 1987, the bank statements showed that the YR equivalent of U.S. \$1,509,646 (YR 14,719,048), had been deposited and that the YR equivalent of U.S. 1,379,652 (YR 13,451,606) had been withdrawn. This left a balance of YR equivalent of \$129,994 (YR 1,267,442). Exact amount of funds generated by the two HITS horticulture stations -- Al-Irra and Al-Jarouba -- was difficult to determine. According to USAID/Yemen and CID/Yemen officials, generations were about \$500,000.

Although the agreement and PILS were silent, several documents established the criteria on how the fund was to operate:

- . The first work plan prepared by CID, covering the period January 1, 1983 to September 30, 1983, stated that the HITS subproject was to assist "...the MAF in ordering imported deciduous trees which will be sold by the MAF with money deposited in the Fruit Tree Improvement Fund which will be administered by the MAF and the CID/Y Program."
- . The work plan covering the period October 1, 1983 to September 30, 1984 stated "A separate fund was established from proceeds from the sale of the Jarouba produced budded citrus and lime trees and the imported deciduous trees. This fund (is to be) developed and administered jointly by HITS and the MAF Agricultural Service Office..."
- . A letter dated January 5, 1983, from a former CID Chief of Party to the General Director of Agriculture Services of the Ministry of Agriculture and Fisheries (MAF) sets out the procedures for administering, managing, accounting, and using the Fruit Tree Improvement Fund. Briefly, (a) CID staff were responsible for digging and storing seedlings prior to distribution; (b) MAF personnel were responsible for transporting seedlings to various parts of the country, identifying buyers, selling the seedlings, and turning over the funds to CID for deposit into the International Bank of Yemen; (c) CID was to be responsible for accounting and depositing into the fund; and (d) both CID and MAF were to have joint control over decisions on how the proceeds of the Fruit Tree Improvement Fund were to be used.
- . The HITS annual workplans for fiscal years 1985, 1986 and 1987 did not mention the Fruit Tree Improvement Fund or what the money was to be used for. According to the HITS fiscal

year 1988 work plan, the MAF, USAID, and HITS were to work together to develop a procedure for utilizing the funds generated by the sale of trees and fruit purchased and/or produced by the project to support the operational costs of the project.

We found, however, that the Fruit Tree Improvement Fund was not being jointly administered. Actual and complete control over deposits and use of funds rested with the MAF Deputy Minister. Further the only signature authorized to withdraw funds from the account was the Team Leader of the CORE sub-project, an employee of Oregon State University. This official, however, only wrote checks as directed by the Deputy Minister. While he received bank statements, he did know the source of funds for deposits. Neither this employee or anyone at CID or USAID/Yemen knew what the funds were used for.

The loss of control occurred because that portion of the grant agreement or the related Project Implementation Letters which added the HITS sub-project were silent as to what is to be done with the cash reflows resulting from tree sales. According to USAID/Yemen, these documents were silent because tree importation was never considered one of the important activities of the subproject. In addition, CID did not develop procedures to comply with the informal letters, setting the criteria, exchanged with the MAF. We also found no procedures in place to control and administer such funds, although joint control was called for in the 1988 work plan, which commenced October 1, 1987.

The MAF seems to have deposited funds to the account that were generated by activities not supported by USAID/Yemen. For instance, deposits to the account amounted to the equivalent of \$1.5 million. According to USAID/Yemen's best estimates, project supported activities generated the equivalent of \$500,000. Thus, the remainder (\$1.0 million) came from activities which were strictly supported by the Government of Yemen. Notwithstanding the non-project deposits, the USAID financed HITS subproject has generated, and will continue to generate significant sums of money through the sale of imported and locally produced fruit trees to Yemeni farmers. There was clear intention for these funds to be controlled jointly by MAF and project officials and be used for project purposes. Somewhere this concept was lost. Consequently, one project official was merely writing checks as directed by MAF officials. Neither CID/Yemen nor USAID/Yemen had any knowledge of the source of funds or what the funds were used for. While the fiscal year 1988 work plan called for using these funds to

support project activities, there was no plan or procedures developed to do so. Under such circumstances, the role of the CID official needs to be reassessed and his name disassociated with the bank account. Also, procedures and controls need to be established for future deposits and use of funds. Without them, the project financed activities are vulnerable to significant abuse and misuse; and denied the use of any available funds to maintain the self-sustaining mechanism contemplated for this program.

Recommendation No. 1

We recommend that USAID/Yemen require the Consortium for International Development in Yemen to remove the signature of its official from the bank account at the International Bank of Yemen.

Recommendation No. 2

We recommend that USAID/Yemen issue a jointly signed Project Implementation Letter delineating procedures and internal controls to account for and administer funds generated in the future from the Horticulture Improvement and Training Subproject.

USAID/Yemen reviewed the draft of this report prior to its release. USAID/Yemen concurred with the two recommendations (See Appendix 1). USAID/Yemen's comments were considered in this report and are included as an attachment to this report.

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SUBJECT: MISSION'S RESPONSE TO THE DRAFT REPORT ON
- USAID/YEMEN'S AGRICULTURE DEVELOPMENT SUPPORT
- PROGRAM'S FRUIT TREE IMPROVEMENT FUND.

1. THE FOLLOWING RESPONSE TO THE SUBJECT REPORT HAS BEEN POUCHED TO YOU TODAY.

2. THE MISSION WOULD LIKE TO SUBMIT THE FOLLOWING COMMENTS ON THE SUBJECT DRAFT REPORT:

- PAGE 2 LAST TWO SENTENCES SHOULD READ AS FOLLOWS. PROPOSED CHANGES ARE UNDERLINED. CID OPERATES THE TOTAL PROGRAM, CONSISTING OF FIVE SUBPROJECTS, THROUGH THREE PRINCIPAL UNIVERSITIES. OREGON STATE UNIVERSITY IS IMPLEMENTING THREE SUBPROJECTS WHICH RELATE TO 1) ADMINISTRATIVE AND LOGISTICAL SUPPORT (CALLED CORE I), 2) A POULTRY EXTENSION AND TRAINING, AND 3) DEVELOPMENT OF A FACULTY OF AGRICULTURE WITHIN THE UNIVERSITY OF SANAA.

- PAGE 3 PARA 2 INDICATES THAT THE FRUIT TREE IMPROVEMENT FUND FALLS WITHIN THE HIT SUBPROJECT. THIS IS INCORRECT. THIS FUND BEGAN UNDER THE CORE I SUBPROJECT AS A PRE-IMPLEMENTATION ACTIVITY OF HITS. THE PROJECT PAPER, THE GRANT AGREEMENT AND PILS WERE SILENT ON THIS SUBJECT. EVEN THE WORK PLANS COVERING JANUARY 1, 1988 THROUGH SEPTEMBER 30, 1989, WHICH ADDRESSED THE ISSUE OF SALE OF FRUIT TREES, EXCLUDED USAID'S INVOLVEMENT IN THE ADMINISTRATION OF THE FUND. THIS ACTIVITY WAS UNDERTAKEN STRICTLY BETWEEN CID AND THE WAF. WE FEEL IT IS IMPORTANT TO CLARIFY THIS POINT. ALSO THE SECOND SENTENCE OMITTED TRAINING AS A MAJOR COMPONENT OF THE HITS. IT SHOULD BE INSERTED. PAGE 9 THE SECOND PARAGRAPH MENTIONS THAT AMENDMENT 15 TO THE GRANT AGREEMENT (HITS SUB PROJECT) DOES NOT ADDRESS CASH REVENUE FROM SALE OF FRUIT TREES. GRANT AGREEMENTS GENERALLY DO NOT ADDRESS THESE LEVELS OF DETAIL. THEY COULD BE DESCRIBED IN PILS. HOWEVER, IN THIS CASE, EVEN PILS WERE SILENT ON THIS SUBJECT BECAUSE TREE IMPORTATION WAS NEVER CONSIDERED ONE OF THE IMPORTANT ACTIVITIES OF THE SUBPROJECT.

PAGE 10 LINE 9 "THESE FUNDS" IMPLIES FUNDS PRESENTLY

INCLUDED IN THE FRUIT TREE IMPROVEMENT FUND BUT THE
WORK PLAN CALLS FOR SETTING UP OF A NEW FUND AND TO
ESTABLISH PROCEDURES TO MANAGE THE FUND COLLECTIVELY
WITH THE MAF, CONTRACTOR AND USAID CONTROL.

WE CONCUR WITH THE TWO RECOMMENDATIONS AND HAVE ALREADY
INITIATED STEPS TO IMPLEMENT THEM. KATTOUF

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