

INTERIM AUDIT REPORT ON THE  
USAID/JAMAICA EMERGENCY  
REHABILITATION PROJECT NO. 532-0185

Audit Report No. 1-532-89-14  
March 22, 1989

U. S. MAILING ADDRESS  
RIG/T  
APO MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA - HONDURAS

TELEPHONES  
32-9987  
also 32-3120 EXT. 2701 2703

March 22, 1989

MEMORANDUM

TO: Director, USAID/Jamaica, William R. Joslin  
FROM: RIG/A/T, *Opwignil Bethoid*  
Coinage N. Gothard, Jr.  
SUBJECT: Interim Audit Report on the USAID/Jamaica Emergency  
Rehabilitation Project No. 532-0185

This report presents the interim results of a concurrent audit by the Office of the Regional Inspector General for Audit (RIG/A/T) and Touche Ross of \$25 million obligated, of which \$3.8 million had been disbursed, to the Government of Jamaica (GOJ) for the rehabilitation of certain services damaged by Hurricane Gilbert on September 12, 1988. Please advise this office within 30 days of any additional information relating to actions planned or taken to implement the recommendations. We appreciate the cooperation and courtesy extended to our staff during the audit.

BACKGROUND

Hurricane Gilbert developed on September 10, 1988. The hurricane skirted the southern coasts of Puerto Rico, the Dominican Republic, and Haiti before directly hitting Jamaica on September 12. The storm then passed over the Cayman Islands on September 13 and hit the Mexican island of Cozumel and moved across the northern Yucatan Peninsula on September 14.

Hurricane Gilbert was Jamaica's worst disaster in this century. Forty-six persons were killed according to Jamaica news reports, 40-60,000 were left homeless, and the homes of another 100,000 persons were severely damaged. Winds of up to 110 miles per hour struck the island cutting telephone and electric service, destroying roofs and damaging the international airports. Water supplies were severely disrupted and heavy rains led to flash flooding and mudslides which damaged agriculture.

On September 12, 1988, the U.S. Ambassador to Jamaica declared the situation a disaster of sufficient magnitude to warrant United States Government assistance. The A.I.D. Office of Foreign Disaster Assistance responded by immediately sending emergency necessities, valued at \$1.5 million, to Jamaica.

To help restore basic services, housing, and agricultural production, the U.S. Government also granted \$20 million to the Government of Jamaica on September 28, 1988, for the Emergency Rehabilitation Project (the Project) No. 532-0185. The purpose of this project is to restore essential power, water, and sewerage services, to supply roofing materials for shelter rehabilitation, to provide medical supplies and equipment, to restore some agricultural production through reseeded damaged fields, and to support relief and rehabilitation efforts of non-governmental organizations. The project had a termination date of February 25, 1989.

The grant agreement for the Project has been amended two times. Amendment No. 1, dated November 22, 1988, increased the amount of the grant from \$20 million to \$25 million for hurricane rehabilitation. In Amendment No. 2, December 21, 1988, USAID/Jamaica agreed to reallocate \$221,000 for assistance for transportation equipment, an additional project element. As of January 30, 1989, Touche Ross had reviewed disbursements totaling \$3,796,651. An unaudited accountability statement for the Project as of January 30, 1989, is shown as exhibit 1.

#### AUDIT OBJECTIVES AND SCOPE

The 1989 Foreign Assistance Appropriations Act mandates the A.I.D. Inspector General (IG) to closely monitor the uses of Jamaica disaster assistance and to provide an accounting for the uses of the funds.

To meet this requirement, the Office of the Regional Inspector General for Audit/Tegucigalpa (RIG/A/T) recommended that USAID/Jamaica contract the audit services of a private accounting firm to work under the supervision of RIG/A/T to concurrently audit the disaster assistance financial transactions related to the delivery of hurricane relief and rehabilitation services. A concurrent audit helps to better ensure a more timely identification and correction of possible problems. The RIG/A/T determined the scope of work for the private accounting firm and supervised the audit to ensure the quality of the audit work. RIG/A/T selected Touche Ross as the private accounting firm to assist RIG/A/T in this audit.

RIG/A/T supervised the non-Federal financial and compliance audit of the short term rehabilitation assistance granted to the Government of Jamaica (GOJ) under the Emergency Rehabilitation Project No. 532-0185 (the Project). This report covers \$25 million obligated to the GOJ through January 30, 1989. The objectives of the concurrent non-Federal audit was to determine if the Project grant funds were properly accounted for and used as directed by laws, regulations, and agreement terms.

This interim audit report covers the period September 28, 1988, to January 30, 1989, and was made in accordance with generally accepted government auditing standards. RIG/A/T conducted the field work for this report from October 5, 1988, to February 28, 1989. RIG/A/T has relied heavily on Touche Ross field work. However, we have supervised and reviewed its work for completeness and accuracy. This audit work involved tests to ensure that the Project met the purposes for which the assistance was provided to the GOJ. Touche Ross performed the following specific tests for the two major components of the project.

#### Restoration of Essential Services Component

1. Touche Ross compared \$20,906,981 in earmarks to the relevant Project Implementation Orders for Commodities (PIO/Cs) and Project Implementation Orders for Technical Services (PIO/Ts), compared commitments of \$20,651,912 to the commitment documents and to the related PIO/Cs and PIO/Ts, and examined documentary evidence in support of expenditures totaling \$2,895,551.
2. Touche Ross obtained and reviewed Bills of Lading and other shipping documents for \$7,956,166 in vehicles, heavy equipment, telephone poles and other commodities, which represent 90 percent of the value of the commodities that have arrived in Jamaica.
3. Touche Ross observed clearing procedures as practicable and physically inspected \$3,421,543 in commodities or 39 percent of the value of the commodity arrivals.
4. Touche Ross reviewed the internal controls of the implementing organizations as considered necessary for the purpose of insuring that grant funds were properly accounted for.
5. Touche Ross visited an agricultural seed distribution site and interviewed GOJ officers who distributed the seed and farmers who received and used the seed.
6. Touche Ross visited locations where GOJ Building Stamps were distributed for the shelter rehabilitation program.

#### Support for Non-Governmental Organizations Component

1. Touche Ross compared \$2,135,000 in earmarks to the relevant PIO/Cs and PIO/Ts, compared commitments of \$2,135,000 to the commitment documents and to the related PIO/Cs and PIO/Ts, and examined documentary evidence in support of expenditures totaling \$789,747.
2. Touche Ross reviewed documentation for loans granted by the National Development Foundation amounting to \$198,125 (29 percent of the amount of Foundation loans) and for loans disbursed by the Council of Voluntary Social Services/United Way of Jamaica amounting to \$939,237 (95 percent of the amount of the Council loans).

3. Touche Ross visited the health clinic and several sites where the Kingston Restoration Company (KRC) program in inner-Kingston was repairing roofs.
4. Touche Ross inspected the stock of shelter materials, security arrangements, and warehouse records for the KRC housing program.
5. Touche Ross reviewed the establishment of special bank accounts for all participating non-Governmental organizations and traced grant funds to those accounts where appropriate.

#### INTERIM RESULTS OF AUDIT

Since the Touche Ross audit is still underway, the Regional Inspector General for Audit/Tegucigalpa is not in a position at this time to give a positive assurance on the uses of the funds by USAID/Jamaica. However, nothing came to our attention during the course of extensive audit tests to indicate that the \$25 million obligated and \$3.8 million disbursed under the Emergency Rehabilitation Project No. 532-0185 as disaster assistance to the Government of Jamaica for emergency rehabilitation was used in any material way other than for its intended purposes, except as discussed below.

#### 1. Roofing Materials and Related Supplies Received by the Jamaica Commodity Trading Co. Have Not Yet Been Sold

The Project grant agreement dated September 28, 1988, between the Government of Jamaica (GOJ) and the United States of America states in Annex I, Section II.A.3. that, "The roofing and supplies will be sold by the Grantee to private Jamaican wholesalers for distribution through normal retail commercial channels." The Jamaica Commodity Trading Co. Ltd. (the Trading Co.), the company nominated by the GOJ to sell the roofing supplies and related materials provided by the grant, has received three shipments of commodities valued at approximately \$1.3 million. The Trading Co. informed us that these commodities are still in stock. The Trading Co. explained that the merchants are adequately stocked at this time, and therefore their requirements for supplies are severely reduced. The Trading Co. has not sold the roofing materials and related supplies under the project, and hence subsequent action described in the project grant agreement, i.e., the use of funds from these sales to "...fund a program of vouchers for hardware and building supplies..." were still not initiated as of February 25, 1989, the project assistance completion date.

#### Recommendation No. 1

We recommend that USAID/Jamaica obtain evidence from the Government of Jamaica that:

- a. the roofing materials have been sold;
- b. the sales proceeds have been deposited in a building rehabilitation fund; and,

- c. the building rehabilitation fund has been used to restore the housing of eligible recipients.

USAID/Jamaica has raised with the GOJ the urgent need to address the lagging sales of roofing materials, and has proposed three options for distributing A.I.D.-financed zinc roofing. They have met with the GOJ and plan to actively pursue early resolution of the problem. Management comments are attached to this report as appendix 1.

The Office of Inspector General, through Touche Ross, will monitor progress towards resolving this problem. The recommendation can be closed as soon as the building materials have been distributed for hurricane rehabilitation.

## 2. Agricultural Seed Distribution Was Inaccurate

Agricultural seeds were not distributed in accordance with the Emergency Rehabilitation Project (the Project) implementation plan. This resulted in farmers not receiving certain seeds necessary to replace hurricane damaged crops. This situation happened because of a clerical mistake by a GOJ employee.

Acting on communication between the Government of Jamaica, Ministry of Agriculture (Ministry) and USAID/Jamaica regarding the implementation of the project, the Ministry prepared a distribution list comprising allocations of seed to parishes in Jamaica for distribution to farmers.

The Ministry issued 315 pounds of onion seed, valued at \$8,665 to the St. Andrew Land Authority in St. Andrew Parish in excess of the amount allocated per the Ministry distribution list. This mis-allocation happened because the letters of allocation from the Ministry to the Land Authority as well as to the supplier of the seed erroneously stated the quantities in two allocations as 175 pounds each, rather than 17.5 pounds, for two types of onion seed. As a result, the total quantities of the two types of onion seed that was supplied by contract was exhausted. As a result, farmers in seven parishes did not receive their allocation of Texas Early Grano onion seed, farmers in one parish received only part of their allocation, and farmers in five parishes did not receive their allocation of Granex Hybrid onion seed.

### Recommendation No. 2

USAID/Jamaica should obtain evidence that the Government of Jamaica has recovered or properly allocated the excess seed delivered to the Saint Andrew Land Authority.

In December 1988, USAID/Jamaica requested the Ministry to recover the overissued seed and, in the absence of that, to issue a revised allocation list. The Ministry recovered 306 of the 315 pounds of the overissued onion seed and issued a revised allocation list which incorporates changes caused by the overissue of the seed.

The Office of Inspector General considers this recommendation resolved and will close it upon our verification that allocations were made in accordance with the revised allocation list.

### 3. Business Loans Did Not Meet Project Criteria

Most of the loans granted by the National Development Foundation (the Foundation) under the Project did not satisfy the criteria established in the agreement between USAID/Jamaica and the Foundation. This occurred because the Foundation granted loans on the basis of their own evaluation of clients' needs rather than on the criteria outlined in the agreement without obtaining a written clarification from USAID/Jamaica which would allow the Foundation's actions.

The Foundation submitted a list of loans for audit as of December 15, 1988. This list comprised loans approved by the Foundation's Kingston and other branch offices totaling \$550,895 <sup>1/</sup>, of which \$375,162 had been disbursed by the Foundation. The Foundation prepared the list on the basis of understandings reached at a meeting on December 13, 1988, between the Foundation, USAID/Jamaica, Price Waterhouse and audit staff, and was meant to replace the list previously given to Touche Ross for audit. The replacement list was necessary because of a previous audit finding, which is discussed in the Other Pertinent Matters section of this report.

Touche Ross reviewed the documentation for 10 loans from the new list for the Kingston branch office, totaling \$108,125. The review found that 8 of the 10 loans which had been granted did not entirely satisfy the criteria set out in the agreement dated October 14, 1988, between USAID/Jamaica and the Foundation. These eight questionable loans totaled \$78,930. The results of this review is shown as exhibit 2.

The following criteria as stipulated in the agreement between USAID/Jamaica and the Foundation were considered pertinent to the review and this finding.

- (a) "These funds will be specifically targeted to businesses that sustained damages or losses resulting from Hurricane Gilbert."
- (b) "Funds will be used to finance working capital, infrastructure replacement and repair costs, replacement and repair of plant and equipment, replacement of stocks, as examples."
- (c) "...applicants should be individuals or groups with assets up to J\$500,000 (exclusive of land and buildings)."

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<sup>1/</sup> All US dollars in finding No. 3 are approximate amounts based on the exchange rate of J\$5.46 = US\$1.00.

Not all loans satisfied the criteria stated above because the Foundation granted loans on the basis of their own evaluation of clients' needs arising from the effect of the hurricane rather than on the basis of criteria outlined in the agreement. There was a need for the Foundation to obtain from USAID/Jamaica more specific written clarification on the relative importance of various stipulations outlined in the agreement. If the Foundation does not grant loans on the basis of criteria outlined in its agreement with USAID/Jamaica, the disbursements will not be in accordance with the Project agreement.

Recommendation No. 3

We recommend that USAID/Jamaica:

- a. clarify with the National Development Foundation those clauses in the agreement which are of such importance that, if they are not complied with, would constitute a breach of the agreement;
- b. require the National Development Foundation to document that all loans meet the criteria stipulated in the agreement; and,
- c. disallow disbursements from the Emergency Rehabilitation Project funds for all loans made by the National Development Foundation which do not satisfy criteria, as clarified, outlined in the agreement between USAID/Jamaica and the National Development Foundation.

USAID/Jamaica amended the grant agreement with the Foundation on January 30, 1989, to clarify the clauses concerning loan eligibility criteria. Therefore, part (a) of the recommendation is closed with the issuance of this report. Also, the Foundation has responded to this finding by providing explanations and documentation to substantiate those questionable loans shown in Exhibit 2.

The Office of Inspector General considers parts (b) and (c) of the recommendation resolved. Part (b) of the recommendation will be closed upon our review of the Foundation's documentation concerning the questionable loans. The closure of part (c) of the recommendation will depend on the results of our review of this documentation.

Other Pertinent Matters

An issue that was brought to management's attention is discussed below.

Not All Loans Intended To Be Reimbursed from Project Funds Were Based on Damages and Losses Resulting from Hurricane Gilbert

Between the date of the agreement with USAID/Jamaica, October 14, 1988, and the receipt of an advance of \$487,500 in early November 1988, the National Development Foundation (the Foundation) made loans to various small businesses using other funds available to them.

Touche Ross was advised by the Foundation financial controller that for certain loans made, the other funds would be reimbursed from the funds received under the Project. Touche Ross received from the financial controller a listing totaling \$52,135 of such loans made by the Foundation's Kingston office.

Touche Ross examined loan documentation for ten loans amounting to \$13,787, or 31 percent in value of the total listing. The examination showed the following:

- Nine loans totaling \$38,293 were given for purposes other than hurricane rehabilitation.
- Only one loan for \$5,495 was disbursed on the basis of hurricane damage.
- Some loans were approved prior to the date of the hurricane.

The agreement between the Foundation and USAID/Jamaica states that, "These funds will be specifically targeted to businesses that sustained damages or losses resulting from Hurricane Gilbert". Therefore, Touche Ross concluded that if the Foundation reimbursed the \$52,135 from the funds received under the Project, then there would be a deviation from the criteria stated in the agreement.

This finding was discussed with USAID/Jamaica and the Foundation and it was agreed that the Foundation would not reimburse the \$52,135 from Project funds. Since action has been taken by USAID/Jamaica, no recommendation is deemed necessary in this report.

#### Other Issues

Certain audit matters are in various stages of development as of this interim report. We will not know if these matters are material, and therefore reportable, until the audit work is finished and the matters are resolved. The matters currently under review and resolution are:

1. Whether the establishment of only one separate bank account by the Foundation will cause Touche Ross to qualify its opinion on the Foundation financial statement. The agreement between the Foundation and USAID/Jamaica required that the Foundation establish a separate bank account for USAID funds. The Foundation opened a separate bank account but subsequently transferred the grant money to the general bank accounts of its branches, thus commingling A.I.D. funds with Foundation funds and making it difficult if not impossible to trace A.I.D. funds to their end use. USAID later requested the Foundation to establish additional accounts for their branch offices for A.I.D. funded loan activities to account for A.I.D. funds to their end use. The Foundation did not comply with this request because their internal procedures and the short project period did not permit the timely establishment of these accounts.
2. Whether the agriculture seed contractor satisfies the contract by supplying the contracted quantity of cabbage seed.

3. Whether the delivery of health commodities and audit services after the PACD is in compliance with A.I.D. regulations.
4. The receipt and review of final accounting reports from all non-governmental organizations per their agreements with USAID/Jamaica.
5. The examination of sufficient documentary evidence in support of expenditures for the power technical services element and the commodity elements for commodities procured through U.S.-based procurement services agents.

Other nonmaterial matters in the execution of USAID/Jamaica Emergency Rehabilitation Project activities have been documented in the progress reports issued by Touche Ross to RIG/AT over the course of the audit.

INTERIM AUDIT REPORT ON THE  
USAID/JAMAICA EMERGENCY  
REHABILITATION PROJECT NO. 532-0135

EXHIBITS AND APPENDICES

USAID/JAMAICA PROJECT NO. 532-0135  
EMERGENCY REHABILITATION PROJECT  
FUNDS ACCOUNTABILITY STATEMENT - JANUARY 30, 1989  
(All Amounts in U.S. \$000's)  
(UNAUDITED)

<u>ELEMENT</u>	<u>1/ OBLIGATIONS \$</u>	<u>2/ EARMARKS \$</u>	<u>3/ COMMITMENTS \$</u>	<u>4/ DISBURSEMENTS \$</u>	<u>5/ ACCRUED EXPENDITURES \$ (1/25/89)</u>
POWER -					
Commodities	1,468.1	1,458.5	1,158.6	310.5	
Technical Assistance	69.2	69.1	69.1	52.0	
Technical Services	5,243.7	5,631.2	5,619.2	2,097.4	
	<u>10,781.0</u>	<u>10,158.9</u>	<u>10,146.9</u>	<u>2,459.9</u>	<u>6,740.0</u>
SHELTER -					
Commodities	6,987.5	6,987.5	6,987.5	20.5	
Technical Assistance	56.0	56.0	56.0	7.3	
	<u>7,043.5</u>	<u>7,043.5</u>	<u>7,043.5</u>	<u>27.8</u>	<u>2,763.0</u>
WATER -					
Commodities	2,051.1	2,045.1	1,891.1	92.8	
Technical Assistance	67.2	59.1	59.1	18.1	
	<u>2,118.3</u>	<u>2,104.2</u>	<u>1,950.2</u>	<u>110.9</u>	<u>1,315.0</u>
HEALTH -					
Commodities	950.0	950.0	861.0	0.0	509.0
AGRICULTURE -					
Commodities	650.0	650.0	650.0	316.7	203.0
NATIONAL DEVELOPMENT FOUNDATION	975.0	975.0	975.0	416.9	557.0
KINGSTON RESTORATION COMPANY	475.0	475.0	475.0	1.8	499.0
CVSS/UNITED WAY	985.0	985.0	985.0	371.1	343.0
TRACKING/MONITORING & AUDIT	311.9	309.1	291.1	111.3	15.0
TELEPHONE EQUIPMENT	486.0	486.0	135.0	0.0	0.0
TRANSPORTATION OF RELIEF GOODS	<u>221.0</u>	<u>221.0</u>	<u>221.0</u>	<u>0.0</u>	<u>221.0</u>
PROJECT TOTAL	<u>25,000.0</u> =====	<u>24,358.0</u> =====	<u>23,737.3</u> =====	<u>3,796.7</u> =====	<u>12,902.0</u> =====

- 1/ Obligation is the amount made available by A.I.D. to pay for goods and services for projects and is established by a signed project agreement or amendments to the agreement.
- 2/ Earmark represents an implementation action of a project which involves funding. Earmarks are generally approved bilaterally by signatures on project implementation orders or project implementation letters, including prevalidation of fund availability by the USAID.
- 3/ Commitment is the recognition of the execution of a contractual document such as Purchase Order or Contract for Services.
- 4/ Disbursement is the amount disbursed for goods and services.
- 5/ Accrued Expenditure represents cost incurred during a given period for goods received and services rendered but not billed, or billed but not paid, or paid but not recorded.

USAID/JAMAICA PROJECT NO. 532-0180  
EMERGENCY REHABILITATION PROJECT  
NATIONAL DEVELOPMENT FOUNDATION (AGREEMENT DATED OCTOBER 14, 1968)  
Review of Business Loans

LOANS - KINGSTON BRANCH

LOAN IDENTIFIER	TYPE OF BUSINESS	A M O U N T			PURPOSE FOR LOAN DOCUMENTATION	COMMENTS
		APPROVED J\$	DISBURSED J\$	QUESTIONED J\$		
1.	Radio and other furniture manufacturer	90,000	90,000	0	Replacement of damaged stock and funding fixed costs during business closure.	
2.	Motor repair workshop and sale of motor spares	30,000	30,000	0	Repairs to workshop and equipment including replacements.	
3.	Garment manufacturer	55,000	55,000	55,000	Finance the import of some clothing to meet an order.	The documents indicate that the client's factory has been damaged by the hurricane. However, the loan has been given on the basis of procuring to meet a customer order. There was no assessment of the damage suffered. There was no statement of the assets of the business.
4.	Garment manufacturer	24,371	24,371	24,371	Repairs to factory and replacement of damaged raw materials, etc.	No assessment of damage suffered nor statement of assets.
5.	Lighterman	38,000	38,000	14,236	Finance one week's payroll during business closure, replace damaged raw materials and spares for tools and machines.	The cost of payroll and the estimated replacements amount to J\$20,763.42. The difference of J\$14,236.58 has been given on account of loss of production time due to lack of electricity.

LOANS - KINGSTON BRANCH

LOAN IDENTIFIER	TYPE OF BUSINESS	A M O U N T			PURPOSE FOR LOAN DOCUMENTATION	COMMENTS
		APPROVED	DISBURSED	QUESTIONED		
		J\$	J\$			
6.	Joinery	40,000	26,054	40,000	Finance additional tools and raw materials to expand market potentiality.	No evidence of hurricane damage.
7.	Making cement blocks and also trading in hardware	48,640	48,640	30,000	Repair roof, finance replacement of damaged stock and to build up additional stock to meet increasing demand for cement.	Cost of roof repairs and the replacement of damaged stock is estimated to be J\$18,639.33. The balance of J\$30,000 has been disbursed to finance additional stocks to meet the growing demand.
8.	Restaurant and bar	90,000	40,585	90,000	Expansion of restaurant to meet growing demand.	No evidence of hurricane damage.
9.	Children's garment manufacturer	27,349	27,349	27,349	Finance working capital and expansion.	The client has been having a working capital problem for some time which has been worsened due to diverting business funds for roof repairs resulting from hurricane. The loan has been given to purchase 2 new machines and raw material. No estimate of the roof damage.
	Garment manufacturer	150,000	150,000	150,000	Finance expenses during business closure.	No estimate of these expenses. Also the business, in our view, is not a small business as the assets are valued at J\$600,000.
		590,360	526,999	430,956		
		=====	=====	=====		
	U.S. \$	108,125	96,520	78,930		

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ACTION: RIG-3 INFO: AME DCM/S

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APPENDIX 1

Page 1 of 8

AIDAC

FOR D/RIG/A/T GOTHEARD

E.O. 12356: N/A

SUBJECT: DRAFT INTERIM AUDIT REPORT ON THE  
USAID/JAMAICA EMERGENCY REHABILITATION PROJECT  
(NO. 532-0185)

THIS RESPONDS TO YOUR MEMORANDUM DATED MARCH 2  
ENCLOSING A COPY OF THE DRAFT AUDIT REPORT ON THE  
EMERGENCY REHABILITATION PROJECT IN JAMAICA.  
FOLLOWING ARE OUR WRITTEN COMMENTS, AS REQUESTED  
IN YOUR MEMORANDUM. NOTE THAT THE ATTACHED  
DOCUMENTS DESCRIBED BELOW IN USAID RESPONSE TO  
RECOMMENDATION NO. 2 WERE FAXED TO YOU ON MARCH 10  
FOR INCLUSION HEREIN.

USAID/JAMAICA IS PLEASED TO HAVE MET THE  
OBJECTIVES OF THE EMERGENCY REHABILITATION PROJECT  
WHICH RESPONDED TO DAMAGE CAUSED BY HURRICANE  
GILBERT.

THE AID PROJECT AGREEMENT WAS SIGNED 16 DAYS AFTER  
THE HURRICANE STRUCK, AND APPROXIMATELY A MONTH  
LATER USAID HAD COMMITTED \$15.6 MILLION, OR 80  
PERCENT, OF PROJECT FUNDS. BY THE END OF  
NOVEMBER, THE PROJECT AGREEMENT HAD BEEN INCREASED  
TO \$25 MILLION, AND USAID HAD COMMITTED MORE THAN  
\$20 MILLION. BY THE END OF DECEMBER, FUNDS WERE  
86 PERCENT COMMITTED AND BY THE END OF JANUARY,  
COMMITMENTS WERE 97 PERCENT. DISBURSEMENTS HAVE  
BEEN MADE PROMPTLY, THOUGH OF COURSE LAG BECAUSE  
THEY ARE MADE ONLY AFTER WORK IS DONE AND A  
BILLING RECEIVED.

WHEN THE PROJECT ENDED ON FEBRUARY 25, 1989,  
PRELIMINARY INDICATIONS SHOW A WIDE RANGE OF  
IMPACTS OF AID ASSISTANCE. FOR INSTANCE, POWER  
WAS RESTORED IN 80 DAYS (30 DAYS AHEAD OF  
SCHEDULE) TO ITS PRE-HURRICANE LEVEL OF 260 MW  
AFTER SHUT-DOWN THE DAY OF THE HURRICANE, WITH  
VIRTUALLY ALL INDIVIDUAL CUSTOMERS FULLY  
RESTORED. AID FINANCED 145 LINESMEN FROM SIX  
AMERICAN COMPANIES WHO WORKED 89-HOUR WEEKS TO  
HELP RESTORE POWER TO SOME 97,000, OR 35 PERCENT,  
OF TOTAL CUSTOMERS. AID FINANCED 826

PREFABRICATED HOUSING UNITS FOR NEEDY, HOMELESS FAMILIES. IN SUPPORT OF JAMAICA'S SUCCESSFUL EFFORTS TO FULLY RESTORE WATER SOURCES, AID FINANCED SOME 80 PERCENT OF PIPES, FITTINGS, AND PUMPS USED TO RESTORE BROKEN MAIN DISTRIBUTION LINES, WATER/SEWERAGE PLANTS, AND SMALL AND LARGE PIPELINES. AID-FINANCED SEEDS HAVE BEEN PLANTED AND HARVESTED, AND THESE CROPS ARE NOW REAPPEARING IN URBAN MARKET PLACES. IN THE HEALTH SECTOR, AID FINANCED VEHICLES FOR A MOSQUITO SPRAYING OPERATION TO ENSURE THERE WOULD BE NO OCCURRENCE OF DENGUE FEVER. A JAMAICAN NGO MADE 308 NEW LOANS TO HURRICANE-DAMAGED BUSINESSES, OF WHICH 30 PERCENT WENT TO WOMEN-OWNED BUSINESSES, AND HELPED RESTORE SOME 1,200 JOBS. IN DOWNTOWN KINGSTON, AN NGO STAFFED A HEALTH CLINIC WHICH PROVIDED SOME 3,000 PERSONS WITH HEALTH CARE AND HEALTH EDUCATION IN THE AFTERMATH OF THE HURRICANE. IN ADDITION, AID FINANCED REMOVAL OF SOME 180 CONTAINERS OF RELIEF GOODS WHICH WERE BLOCKING CONGESTED PORT WAREHOUSES, SO THEY COULD BE DISTRIBUTED TO NEEDY INDIVIDUALS.

WE HAVE BEEN HIGHLY SATISFIED WITH THE SYSTEM OF CONCURRENT AUDIT OF THIS PROJECT. THIS SYSTEM FOR AUDITING THE PROJECT ENABLED THE MISSION TO AVOID PITFALLS INHERENT IN UNDERTAKING ANY PROJECT AND FACILITATED MID-COURSE CORRECTIONS DURING IMPLEMENTATION. TO ASSIST RIG, THE MISSION WAS ABLE TO CONTRACT FOR SERVICES OF THE RIG SELECTED LOCAL OFFICE OF A BIG EIGHT ACCOUNTING FIRM APPROXIMATELY THREE WEEKS AFTER SIGNING OF THE PROJECT AGREEMENT, AND THE FIRM BEGAN WORK PROMPTLY.

FOLLOWING ARE MISSION RESPONSES TO THE THREE RECOMMENDATIONS IN THE DRAFT AUDIT REPORT.

RECOMMENDATION NO. 1  
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WE RECOMMEND THAT USAID/JAMAICA OBTAIN EVIDENCE FROM THE GOJ THAT THE ROOFING MATERIALS HAVE BEEN SOLD, THE PROCEEDS DEPOSITED IN A BUILDING REHABILITATION FUND, AND THE FUND HAS BEEN USED TO

RESTORE THE HOUSING OF ELIGIBLE RECIPIENTS.

USAID RESPONSE  
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APPENDIX 1  
Page 3 of 8

THE MISSION'S FIRST OBJECTIVE WAS TO ENCOURAGE THE GOJ TO MAKE MAXIMUM USE OF THE COMMERCIAL DISTRIBUTION SYSTEM FOR REPLACEMENT ROOFING INSTEAD OF CREATING NEW GOVERNMENT CHANNELS. WE WERE SUCCESSFUL IN ACHIEVING THIS OBJECTIVE. OUR SECOND PRIORITY WAS TO MAKE SUFFICIENT ZINC ROOFING AVAILABLE SO THAT PEOPLE COULD HELP THEMSELVES AS MUCH AS POSSIBLE. THIS OBJECTIVE, TOO, WAS ACCOMPLISHED, AS USAID FIELD SURVEYS FOUND ROOFING GENERALLY AVAILABLE FROM ABOUT DECEMBER FIRST, AND IT CONTINUES TO BE IN AMPLIFIED SUPPLY THROUGH JAMAICA. SIMULTANEOUSLY, AND UNKNOWN TO USAID, THE GOVERNMENT ORDERED ROOFING MATERIALS IN QUANTITIES SIGNIFICANTLY GREATER THAN THE PROJECTED REQUIREMENT. THE BUILDING STAMPS PROGRAM, ONCE STARTED, WAS PLACED ON HOLD IN JANUARY THROUGH THE ELECTION PERIOD WHICH ENDED IN EARLY FEBRUARY. EVEN SO, STAMPS WORTH JAMAICAN DOLLARS 154 MILLION (U.S. DOLLARS 28 MILLION) WERE DISTRIBUTED DIRECTLY TO NEEDY INDIVIDUALS BY THE MINISTRY OF SOCIAL SECURITY STAFF.

USAID HAS RAISED WITH THE GOVERNMENT THE URGENT NEED TO ADDRESS THE SITUATION COVERED BY THE RECOMMENDATION, AND HAS PROPOSED THREE OPTIONS FOR DISTRIBUTING AID-FINANCED ZINC ROOFING. WE HAVE MET WITH THE GOVERNMENT AND WILL ACTIVELY PURSUE EARLY RESOLUTION OF THIS PROBLEM.  
RECOMMENDATION NO. 2  
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USAID/JAMAICA SHOULD OBTAIN EVIDENCE THAT THE GOVERNMENT OF JAMAICA HAS RECOVERED THE EXCESS SEED DELIVERED TO THE SAINT ANDREW LAND AUTHORITY AND HAS REDISTRIBUTED IT TO THE PARISHES STILL IN NEED.

USAID RESPONSE  
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UPON BECOMING AWARE OF THIS PROBLEM IN DECEMBER, USAID REQUESTED MINISTRY OF AGRICULTURE (MOA) ACTION TO RECOVER THE OVERISSUED SEEDS AND, IN THE ABSENCE OF THAT, TO ISSUE A REVISED ALLOCATION LIST. IN A MEMO DATED FEBRUARY 15, 1989, FROM LLOYD THOMPSON, MOA, TO THE DIRECTOR OF THE PRODUCTION/EXTENSION DIVISION, MOA, IT IS POINTED OUT THAT 306 OF THE 315 POUNDS OF THE OVERISSUED ONION SEEDS WERE RECOVERED; THE BALANCE HAD BEEN DISTRIBUTED TO FARMERS. SUBSEQUENTLY THE MOA ISSUED A REVISED ALLOCATION LIST WHICH INCORPORATES CHANGES CAUSED BY THE OVERISSUE OF THE SEEDS. BOTH OF THESE ITEMS ARE ATTACHED.

THE ONLY OUTSTANDING MATTERS FOR TOUCHE ROSS TO VERIFY THAT ALLOCATIONS WERE IN FACT MADE PER THE REVISED ALLOCATION LIST. ONCE THIS IS DONE, WE WOULD HOPE THAT THE RECOMMENDATION MAY BE CLOSED.

APPENDIX 1  
Page 4 of 8

RECOMMENDATION NO. 3  
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WE RECOMMEND THAT USAID/JAMAICA:

- A. CLARIFY WITH THE NATIONAL DEVELOPMENT FOUNDATION THOSE CLAUSES IN THE AGREEMENT WHICH ARE OF SUCH IMPORTANCE THAT, IF THEY ARE NOT COMPLIED WITH, WOULD CONSTITUTE A BREACH OF THE AGREEMENT;
- B. REQUIRE ADF TO DOCUMENT THAT ALL LOANS MEET THE CRITERIA STIPULATED IN THE AGREEMENT; AND
- C. DISALLOW DISBURSEMENTS FROM THE EMERGENCY REHABILITATION PROJECT FUNDS FOR ALL LOANS MADE BY THE NATIONAL DEVELOPMENT FOUNDATION WHICH DO NOT SATISFY CRITERIA, AS CLARIFIED, OUTLINED IN THE AGREEMENT BETWEEN USAID/JAMAICA AND THE NATIONAL DEVELOPMENT FOUNDATION.

## USAID RESPONSE

APPENDIX 1  
Page 5 of 8

NDF GRANTED LOANS TO CLIENTS BASED ON THEIR UNDERSTANDING OF THE GRANT AGREEMENT AND ON NUMEROUS DISCUSSIONS WITH USAID OFFICIALS AND RIGBY AUDITORS. THE DISCUSSIONS IDENTIFIED TWO BASIC DIFFERENCES OF PERCEPTION IN THE INTERPRETATION OF THE GRANT AGREEMENT. ONE INTERPRETATION OF THE GRANT AGREEMENT ALLOWED NDF TO PROVIDE LOAN FUNDS TO COVER ONLY THE EXACT PHYSICAL LOSS OR DAMAGE. THE OTHER INTERPRETATION, WHICH WAS THE MISSION'S INTENT, ALLOWED NDF TO COVER NOT ONLY EXACT PHYSICAL LOSS OR DAMAGE, BUT ALSO ANY OTHER LEGITIMATE BUSINESS USES AS LONG AS THE CLIENT HAD SUSTAINED LOSS OF DAMAGE AS A RESULT OF THE HURRICANE.

AS A RESULT OF THE DIFFERING INTERPRETATIONS, USAID/JAMAICA CHALLENGED THE MATTER BY AMENDING THE GRANT AGREEMENT ON JANUARY 31, 1989 TO PERMIT NDF TO FINANCE "ANY REPAIR, IMPROVEMENT, ENLARGEMENT, REPLACEMENT, OR WORKING CAPITAL" OF BUSINESSES WHICH SUSTAINED DAMAGES OR LOSSES DUE TO HURRICANE GILBERT. FURTHERMORE, THE AMENDMENT REQUIRES NDF TO ADMINISTER A THRESHOLD TEST INDICATING THAT THE CLIENT SUFFERED DAMAGE FROM, OR AS A RESULT OF HURRICANE GILBERT.

SUBSEQUENT TO THE GRANT AMENDMENT, NDF RESPONDED TO THE TOUCHÉ ROSS COMMENTS IN THE AUDIT FINDING BY PROVIDING ADEQUATE EXPLANATIONS AND FILE DOCUMENTATION TO SUBSTANTIATE CLAIMS TO THE CLIENTS. HOWEVER, DURING THE PROCESS OF THE CONCURRENT AUDIT, IT HAS BECOME APPARENT THAT THERE ARE DEFICIENCIES IN NDF'S ACCOUNTING AND REPORTING SYSTEMS. NDF IS AWARE OF THE SYSTEM DEFICIENCIES AND IS TAKING CORRECTIVE ACTIONS.

BASED ON THE ABOVE GRANT AGREEMENT CLARIFICATION, NDF'S RESPONSE TO AUDITOR COMMENTS AND CORRECTIVE ACTIONS TAKEN BY NDF, WE REQUEST THAT THE RECOMMENDATION BE CLOSED.

USAID IS EXTREMELY PLEASED THAT THE ONLY ISSUE INVOLVES NDF'S RECORDS AND SYSTEMS, THAT THERE IS GENERAL AGREEMENT THAT ALL LOANS HAVE BEEN MADE FOR LEGITIMATE BUSINESS PURPOSES IN THE MICRO AND VERY SMALL BUSINESS SECTORS, AND THAT AS A RESULT EMPLOYMENT AND ECONOMIC ACTIVITIES HAVE SHOWN SUBSTANTIAL RECOVERY. BOTH NDF AND USAID CREDIT THE CONCURRENT AUDIT WITH HIGH LIGHTING THE NEED FOR FINANCIAL MANAGEMENT CHANGES IN TIME FOR VIGOROUS CORRECTIVE ACTION.

(DRAFTED:CHIEF:THIFFT:APPROVED:DIR:WJCSLIN)  
SCTIRHCS

BT  
#20228

M E M O R A N D U M

To: D/RIG/A/T Coinage N. Gethard  
From: T.R. Tiffit, OPPE/USAID/Kingston *TAT*  
Subj: Draft Audit Report on the USAID/Jamaica Emergency  
Rehabilitation Project  
Date: March 10, 1989

USAID is responding by cable today to your memorandum dated March 7 which requested Mission comments on the draft audit report.

In the USAID Response to Recommendation No. 2, first paragraph, the cable says, "Both of these items are attached." The two items described could not be transmitted by cable and are attached hereto for inclusion with the Mission comments.

Thank you for including them with the Mission comments on the draft audit report.

cc: WJoslin, DIR  
MGolden, DDIR  
RLeonard, CONT

C O P Y

## M E M O R A N D U M

TO: Director  
Production/Extension

FROM: Lloyd Thompson  
Coordinator, Hurricane Rehabilitation Programme

DATE: February 15, 1989

SUBJECT: USAID Project No. 532-0185-C-00-9013-01

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Set out below is the status of Onion Seeds issued to the St. Andrew Land Authority.

<u>TYPE OF SEEDS</u>	<u>ISSUES</u>	<u>EXCESS</u>	<u>AMT. RETURNED</u>	<u>REMARKS</u>
Onion Texas Early Crano	22 lbs	175 lbs	153 lbs	Balance of 32 lbs already issued by Land Authority
Onion - Granex Hybrid	22 "	175 "	153 "	Balance of 10 lbs already issued by Land Authority

You may notice that the Land Authority did not return the full amount, however, other Agencies have donated onion seeds and the Land Authorities which were short issued or did not receive any of the USAID onion seeds have been compensated

All the seeds returned by the St. Andrew Land Authority have been given to the St. Elizabeth Land Authority.

SENT BY USAID, JAMAICA 3-10-89 1:13:20

ITEM	CENTRAL REGION	MAN-CHES-TR	ST-ELIZA-BETH	CLAP-REN-ION	ST-ANN	WESTERN REGION	JAN-OVER	TRE-LAW-NY	WEST-MORE-LAND	ST-JAN-ES	EAST-ERN REGION	ST-MARY	PORT-LAND	ST-THOMAS	ST-ANDREW	ST-CATH-ERINE	TOTAL
(Seeds																	
1. Cabbage KK/KY		12	35	41	12		18	18	18	18		12	15	12	15	24	250
Early Jersey		5	14	17	5		7	7	7	7		5	6	5	6	9	100
Cucumbers Poinsette #7a		141	193	240	85		60	60	60	60		104	89	112	70	76	1350
String Bean Avalanche		421	744	1041	248		372	372	372	372		446	397	471	298	446	6000
Tomato Tropic		10	26	10	4		2	2	2	2		5	2	3	2	5	75
Tomato M 82		10	26	10	4		2	2	2	2		5	2	3	2	5	75
Carrot Danvers 126		179	282	339	113		11	11	11	11		11	339	452	339	11	2100
Onions Texas Early		50	138	43	18		2	22	12	2		4	16	18	55	20	400
Onions Granex Hybrid		50	142	74	15		2	22		2		19	16	24	33		400
Red Peas California																	
Light Red		14000	20900	30500	9400		9800	7700	7900	1000		8300	10900	11500	11000	6900	150000
Corn A 304		5900	7000	2600	3000		600	3000	2000	600		1000	600	600	600	2000	29500
Additional Seeds																	
Carrots Danvers 126		70	100	60	50		30	30	30	30		50	200	200	100	50	1000
Onions Granex Hybrid			50										30			20	100
Farm Tools																	
Pruning Saws	400	1400	675	1900	900	100	800	800	800	1000	400	2000	1200	1200	1200	1400	16475
Pruning Shears Rolcut		2000	800	3000	1200		800	800	800	800		2000	2000	1700	1600	2500	20000
Power Saws																	
																	40

79

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