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**AUDIT OF A.I.D./BELIZE'S
COMMERCIALIZATION OF ALTERNATIVE CROPS
PROJECT NO. 505-0008**

**Audit Report No. 1-505-90-010
May 31, 1990**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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May 31, 1990

MEMORANDUM

TO: A.I.D./Belize, Mosina H. Jordan

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

SUBJECT: Audit of A.I.D./Belize's Commercialization of Alternative Crops
Project No. 505-0008

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of A.I.D./Belize's Commercialization of Alternative Crops Project No. 505-0008. Five copies of the final audit report are attached for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. We appreciate your office's efforts in providing additional clarification and documentation pertinent to the issues raised in the draft audit report.

The report contains three recommendations. Recommendations 1a, 1b, 2b, 3a, and 3b are closed upon issuance of this report. Recommendations 2a, 2c, and 2d are resolved but will remain open until further action is taken. Please advise us within 30 days of any additional actions taken to implement Recommendations 2a, 2c, and 2d.

We appreciate the cooperation and assistance provided the auditors on this assignment.

EXECUTIVE SUMMARY

A.I.D./Belize's Commercialization of Alternative Crops Project No. 505-0008 is an effort to help the Belize agricultural sector diversify from sugar production and introduce other crops--vegetables, oilseeds, grains and tropical fruits--to expand the base of economic activity and increase employment, income, and foreign exchange. This \$6.8 million diversification effort started on September 25, 1985 and was originally scheduled to end on September 30, 1990. A.I.D./Belize later extended the project's completion date to December 31, 1992.

The Belize Agri-Business Company was responsible for implementing the private sector component of the project under which research, testing, and ultimately commercial production of the alternative crops would take place. A U.S. contractor was responsible for providing technical assistance, procurement and institutional developmental services in support of the project's objectives. A.I.D./Belize was responsible for monitoring the project.

Although the Belize Agri-Business Company had tested and introduced alternative crops to the Belizean agricultural sector, commercial production of alternative crops was far below original estimates. As a result, USAID/Belize and the Belize Agri-Business Company reduced the project's commercial production targets to a more realistic level. Mission officials attributed the lower commercial production to a sharp increase in sugar prices and an overall increase in the U.S. sugar quota for Belize which together made alternative crops unattractive to Belize's sugarcane farmers.

There were other factors that adversely affected the project's success. First, accounting and internal controls of the Belize Agri-Business Company were unacceptable, and due to the lack of these basic controls, it was not always possible to determine how resources were used (Finding 1). Second, because of inadequate inventory practices, farm equipment could not be located or valued (Finding 2). Third, project funds were used to pay unallowable costs (Finding 3).

To correct these three problems we recommended that:

- A.I.D./Belize suspend payments to the Belize Agri-Business Company until adequate accounting and internal controls are installed,
- A.I.D./Belize require that an inventory of nonexpendable equipment be made, and
- A.I.D.'s regional contracting officer recover unallowable entertainment and subsistence costs of \$3,310.

A.I.D./Belize generally concurred with our recommendations and before the issuance of the final report had taken several actions to implement them.

Office of the Inspector General

**Office of the Inspector General
May 31, 1990**

**AUDIT OF A.I.D./BELIZE'S
COMMERCIALIZATION OF ALTERNATIVE CROPS
PROJECT NO. 505-0008**

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**AUDIT OF A.I.D./BELIZE'S
COMMERCIALIZATION OF ALTERNATIVE CROPS
PROJECT NO. 505-0008**

PART I - INTRODUCTION

A. Background

Revenue from Belize's sugar industry is a major source of foreign exchange. A.I.D.'s 1985 project paper stated that the sugar industry accounted for 60 percent of Belize's export earnings and provided employment to 1,100 factory workers and 4,400 farm households. But by 1985 Belize's sugar industry was declining and the country's already scarce foreign exchange was even further drained to pay for much of the country's imports.

The need to find alternative sources of revenue other than from the sugar industry was apparent. To confront this dilemma, A.I.D./Belize and the Government of Belize initiated actions to help the agricultural sector diversify from sugar to other crops such as; vegetables, oilseeds, grains and tropical fruits. A.I.D./Belize initiated this diversification effort on September 25, 1985 by signing a project agreement for the Commercialization of Alternative Crops Project No. 505-0008. The project consists of a \$4.8 million private-sector component and a \$2.0 million public-sector component. Also, the Belize Government contributed the equivalent of \$680 thousand to the project. The project's original completion date was September 30, 1990.

A.I.D./Belize and the Government of Belize created the Belize Agri-Business Company (BABCO) to implement the private-sector component of the project. A.I.D./Belize also contracted with a U.S. firm, Chemonics, to provide technical assistance to the project. The public-sector component was to strengthen the Belize Ministry of Natural Resources. A.I.D./Belize was responsible for monitoring the project and all of its components.

B. Audit Objectives, Scope, and Methodology

The Office of the Regional Inspector General for Audit/Tegucigalpa performed an audit of the private-sector component of Project No. 505-0008. The specific audit objectives were to determine if project commercial

¹ U.S.\$1.00 = B\$2.00

targets were achieved and to determine if project resources were used economically and efficiently.

The audit covered the period September 25, 1985 through September 30, 1989. We audited \$678 thousand of the \$3.9 million that had been obligated as of September 30, 1989 for BABCO under its cooperative agreement. This amount related solely to BABCO's administrative and equipment costs. We did not audit the \$2.9 million BABCO paid Chemonics under the technical-assistance contract because an independent accounting firm in Washington, D.C. is currently auditing that contract. We also did not audit the \$2.0 million obligated for the Government of Belize's Ministry of Natural Resources. We started the audit on November 6, 1989 and ended our fieldwork on December 7, 1989. The report also includes additional information provided by A.I.D./Belize in April 1990 in response to our draft report. The audit was made in accordance with generally accepted government auditing standards.

In order to determine if the project's commercial targets were achieved, our audit methodology consisted of interviewing selected farmers and A.I.D./Belize and BABCO officials, visiting farms where alternative crops were planted, and reviewing A.I.D./Belize and BABCO project files. To determine if project resources were used economically and efficiently, we reviewed BABCO's accounting procedures, inventory procedures and financial transactions. We evaluated BABCO's compliance with laws and regulations and tested its accounting and internal controls.

**AUDIT OF A.I.D./BELIZE'S
COMMERCIALIZATION OF ALTERNATIVE CROPS
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PART II - RESULTS OF AUDIT

Although BABCO had introduced alternative crops to the Belizean sugarcane farmer through research and testing efforts, commercial production of alternative crops was far below original targets. After 80 percent of the project's life had passed, farmers had not planted the anticipated 13,000 acres originally targeted. A.I.D./Belize recognized the need to change these original targets, and, in 1988, the A.I.D. Representative approved revisions to the project paper that reduced anticipated commercial production to 3,200 acres. However, A.I.D./Belize recently estimated that only about 1,600 acres could be planted by June 1990, or approximately 50 percent of the revised targets. A.I.D./Belize attributed the lower production to a sharp increase in sugar prices and an overall increase in the U.S. sugar quota for Belize which made alternative crops unattractive to Belize's sugarcane farmers.

The audit disclosed that project resources were not economically and efficiently used. First, accounting and internal controls of BABCO were unacceptable, and due to the lack of these basic controls it was not always possible to determine how resources were used (Finding 1). Second, because of inadequate inventory practices, farm equipment could not be located or valued (Finding 2). Finally, \$3,310 in project funds were used to pay unallowable costs (Finding 3).

A. Summary of Project Progress

Due to various factors, some of which were beyond the control of A.I.D./Belize, the Commercialization of Alternative Crops Project has not accomplished its original planned goal of commercially planting 13,000 acres of alternative crops. Realizing that the original goal could not be met because of an upswing in the sugar market and because of credit constraints on Belizean farmers, A.I.D./Belize revised the project's goal in late 1988 to a more realistic level (3,200 acres or 25 percent of the original goal). A.I.D./Belize currently estimates that, by June 1990, only about 1,600 acres will be commercially planted or approximately 50 percent of the revised targets.

In our draft report, we recommended either the termination of this project or a reassessment to determine what could have been reasonably achieved under the project by the original completion date of September 30, 1990.

Our recommendation was based on the following factors:

- * At best the project will put into production only a fraction of the acreage originally envisioned by project planners.
- * Sugarcane farmers, the group targeted for planting alternative crops, have shown a general disinterest in the project because 1) the price of sugar has doubled; 2) the U.S. sugar quota for Belize has increased; and 3) the anticipated preferred credit arrangements for financing alternative crops have been difficult to find.

Since issuance of the draft report, A.I.D./Belize has obtained a reassessment of the project's status. The reassessment recommended that A.I.D./Belize pursue a "Phase II" approach to the project which would seek to institutionalize BABCO as a self-sustaining marketing firm. On January 31, 1990, A.I.D./Belize extended the project's completion date to December 31, 1992. As a result of these actions since the completion of our audit field work, we have no further recommendations to make in this area.

B. Findings and Recommendations

1. Accounting and Internal Controls Were Unacceptable

A.I.D. policy calls for recipients of cooperative agreements to establish acceptable accounting and internal controls as a prerequisite to the receipt of periodic advances. Belizean law requires organizations to receive annual financial audits. BABCO had neither established acceptable accounting and internal controls nor contracted for external audits as required. Since A.I.D./Belize did not enforce the Agency's policy and BABCO did not fully comply with Belizean law, the \$3.9 million made available for BABCO under the cooperative agreement was vulnerable to waste, mismanagement and abuse.

Recommendation No. 1

We recommend that A.I.D./Belize suspend payments to the Belize Agri-Business Company until:

- a. adequate accounting and internal controls are installed, and
- b. the independent accounting firm that is currently auditing the financial affairs of the Belize Agri-Business Company issues a complete audit report for financial years 1986, 1987, and 1988.

Discussion

Article A.2 of the standard provisions for Cooperative Agreement No. 505-0008-A-00-5063-00 requires BABCO to maintain adequate books, records, documents, and other evidence to substantiate its financial reports to A.I.D. The requirements include the establishment of accounting records that at a minimum identify, segregate, accumulate, and record all costs incurred under the cooperative agreement.

A.I.D. Handbook 13 allows periodic advances to be made when the A.I.D. recipient (i) has an acceptable accounting system, (ii) has the ability to maintain procedures that will minimize the time elapsing between the transfer of funds and the disbursement thereof, and (iii) has a financial management system which meets the standards for fund control and accountability as required under the standard provisions of the cooperative agreement. In other words, BABCO needed to have an acceptable accounting system in order to receive periodic advances from A.I.D.

BABCO's incorporating documents include the statutory provisions of Chapter 206 of the Laws of Belize (Revised Edition, 1980). Briefly, Articles 111 and 112 of Chapter 206 require organizations such as BABCO to have

annual audits and for the auditors to report on the organization's financial statements.

BABCO did not comply with cooperative agreement provisions because it did not establish adequate accounting and internal controls. Due to its small staff, BABCO'S managing director and secretary were the only employees available to work on fiscal matters. The secretary was paid an additional \$150 monthly salary to provide accounting services. However, the secretary only performed additional services in the procurement and inventory record areas. Although BABCO's managing director is an entomologist and not a qualified accountant (according to an A.I.D./Belize financial review), he had assumed responsibility for all of BABCO's fiscal accounting matters, such as custody of the project's bank accounts and checkbooks, check issuances, requests for advances, and the preparation of liquidation vouchers. This organizational arrangement prevented proper segregation-of-duties and made BABCO's financial operations vulnerable.

BABCO had also failed to comply with a Belizean law requiring annual external audits of its operations. The first attempt by A.I.D./Belize and BABCO to execute an external audit occurred on January 18, 1988, or 29 months after BABCO was formed. The audit was to cover BABCO's 1986 and 1987 financial operations. However, the selected public accounting firm did not complete the audit, and on November 21, 1988 BABCO cancelled its arrangement with the firm for nonperformance. By this time BABCO had not been audited for three years.

On February 20, 1989, almost four years since its creation, BABCO selected another public accounting firm to audit its 1986, 1987 and 1988 financial years. The firm's report was in the draft stage at the conclusion of our audit. Our review of the firm's draft report disclosed a material omission, however, as BABCO's market research fund was not included in the financial statements.

During the first four years of BABCO's operations A.I.D./Belize approved BABCO liquidation vouchers even though BABCO's accounting and internal controls were inadequate and annual external audits had not been made as required. A.I.D./Belize did not make a financial review of BABCO until 1988, and at that time it was formally advised of BABCO's poor record keeping procedures. Nonetheless, A.I.D./Belize continued to advance funds to BABCO.

A.I.D./Belize's financial review resulted in a report on December 14, 1988 that contained 13 recommendations made to improve BABCO's accounting, administrative, and internal control procedures. The report stated that because of BABCO's inadequate accounting system the project's financial status could not readily be determined. Although the A.I.D./Belize report

recommended that BABCO receive the independent audits that it should have been receiving, it did not recommend suspension of payments to BABCO.

As a result, after four years there was still less than reasonable assurance that the \$3.9 million made available to BABCO under the cooperative agreement has been used for intended purposes. In our opinion, A.I.D./Belize should suspend disbursements to BABCO until the recipient establishes adequate accounting and internal controls and receives audit reports on BABCO's financial activities for years 1986 to 1988.

Management Comments

A.I.D./Belize generally concurred with the audit finding and recommendation. On December 8, 1989, A.I.D.'s Regional Contracting officer advised BABCO that if acceptable accounting and internal controls were not established by January 31, 1990, the disbursement of funds would be stopped. During March 1990, Mission personnel visited BABCO and determined that it had established adequate accounting procedures and internal controls. On March 14, 1990, a public accounting firm provided the Mission audited financial statements for financial years 1986, 1987, and 1988.

Office of Inspector General Comments

Based on A.I.D./Belize actions, recommendations 1a. and 1b. are closed upon issuance of this report.

2. Project Inventory and Procurement Practices Were Questionable

Federal regulations require the existence of adequate inventory systems and A.I.D. expects equipment and services procured for its projects to be used effectively. However, the project's equipment inventory was inadequate and inaccurate and certain procurement transactions were questionable. These conditions existed because the technical-assistance contractor did not follow Federal regulations and A.I.D. policies and A.I.D./Belize did not enforce them. As a result, about \$355,000 in equipment was not fully accounted for, a \$17,000 refrigerated railcar and \$22,000 washer/waxer were purchased but had never been used, and a privately-owned packinghouse was refurbished for about \$2,400 without proper authorization.

Recommendation No. 2

We recommend that A.I.D./Belize:

- a. require Chemonics and the Belize Agri-Business Company to make an inventory of all nonexpendable equipment procured for the Commercialization of Alternative Crops Project No. 505-0008. Equipment values based on their actual costs must be included in the inventory,
- b. require the Belize Agri-Business Company to execute a short-term property lease with the landowner whose property is used to store an A.I.D.-financed refrigerated railcar and washer/waxer unit,
- c. determine if the refrigerated railcar and washer/waxer unit serve any useful purpose to Project No. 505-0008, and if so, put this equipment to immediate use, otherwise, coordinate with the Belize Agri-Business Company to dispose of the equipment utilizing any sale proceeds for valid project purposes, and
- d. resolve questioned costs of about \$2,400 which were used without proper authorization to refurbish a privately-owned packinghouse.

Discussion

Chemonics was contracted to provide technical assistance, procurement, and institutional-development services in support of the project's objectives. A.I.D.'s contract with Chemonics incorporated certain provisions of the Federal Acquisition Regulations and A.I.D.'s Acquisition Regulations that require Chemonics to be responsible and accountable for all U.S. Government property that it procured for the project. Those responsibilities also require Chemonics to make adequate inventories of U.S. Government property held in its custody. The following sections discuss how the

project's inadequate inventories and procurement practices adversely affected the project.

The Project's Latest Equipment Inventory Is Inadequate - On June 16, 1989, BABCO and Chemonics issued a certification with respect to 249 farm equipment items that had been jointly inventoried prior to their transfer from Chemonics to BABCO. The inventory listing and certifications were accepted by BABCO's managing director as follows:

I hereby accept the information on these attached sheets to be correct and will accept all items into the care of BABCO for maintenance and further distribution.

Our review of this listing disclosed that some of the farm equipment items had not been located and inspected even though so certified. For example, a sickle-bar-mower, cereal thresher, and eight pumps had not been physically verified by the inventory takers. Equipment values had not been recorded on the inventory listing.

Later, on November 22, 1989, BABCO's managing director qualified his acceptance certification in the presence of the Office of the Regional Inspector General audit manager as follows:

The items annotated "not seen" on this list were not verified and inspected by BABCO personnel. Also, the handwritten lists are merely scratch notes to support the [5 page computer] list.

Earlier Inventories Were Also Inadequate - Chemonics did not create an adequate inventory system in Belize to account for the project's non-expendable equipment. Effective inventory controls were not in place because A.I.D./Belize did not enforce contract provisions. For example, on December 17, 1986, the project officer requested that Chemonics:

...please prepare an inventory of all commodities and equipment procured thus far for the project. This should include furniture, office equipment, farm equipment, and commodities to be used for the field trials...

However, seven months later on July 20, 1987 the project officer wrote:

On my recent visit to the project site, I asked that you be prepared to do a spot inventory of equipment and supplies purchased with project funds. After reviewing the inventory sheets, I believe it is necessary for you to perform a detailed inventory reconciling separately the items purchased (paid for)

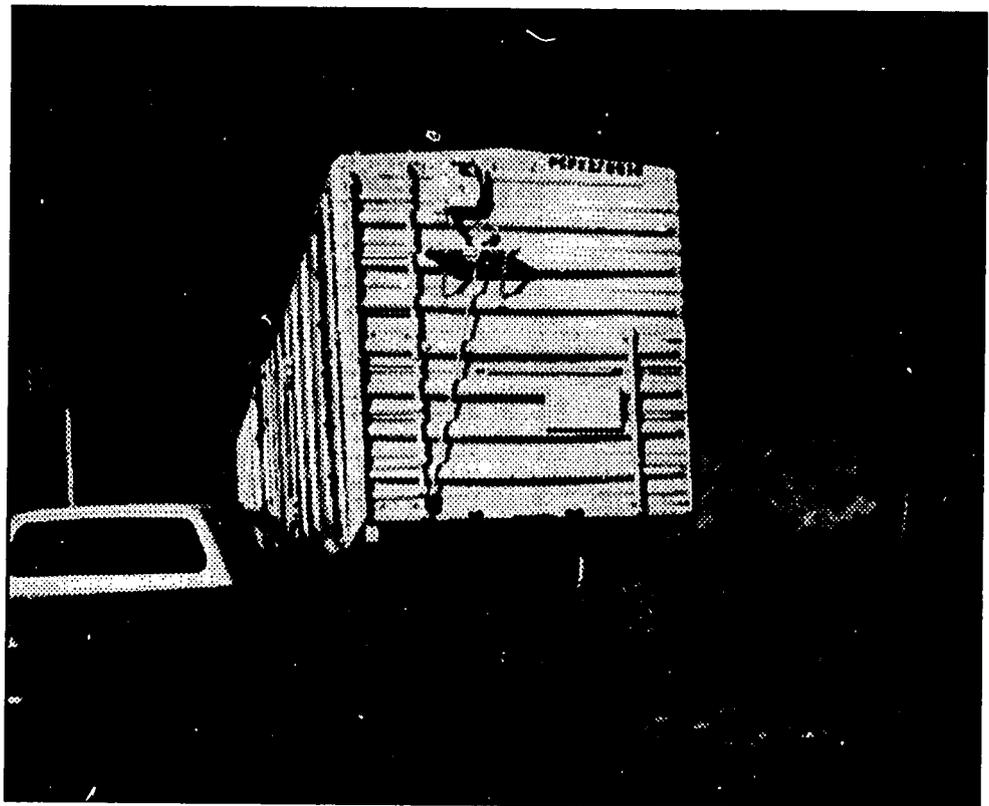
out of the Chemonics Office in Washington and those paid for in country. This reconciliation should be performed before any further equipment materials or commodities are purchased, additionally, receiving and end user reports should be completed.

But Chemonics did not attempt to document another inventory until almost two years later when Chemonics transferred the project equipment to BABCO on June 16, 1989. As previously stated, this inventory too, was found to be inadequate and inaccurate.

Dubious Procurement Decisions - A.I.D. policy is to use A.I.D. financed commodities for programs that will provide the "maximum benefit" to recipients at the "least cost" to the U.S. Government. In other words, equipment and services procured for A.I.D. projects should be used efficiently and effectively.

Two procurements made by the contractor did not comply with this criteria. First, Chemonics procured a refrigerated railcar costing \$17,000 that was to be used by project papaya farmers for crop preparation and storage prior to export. Surprisingly, the railcar was justified and purchased for its "mobility" even though Belize has no rail system.

The unused refrigerated railcar parked next to a privately owned packingshed



A.I.D./Belize and BABCO could not explain why the procurement of the refrigerated railcar was approved. However, documentation does exist suggesting that because of the original project officer's inexperience with A.I.D. project administration procedures, Chemonics was given greater than normal latitude to procure whatever it deemed appropriate for the project.

Second, to prepare and box the papayas for export, Chemonics also procured a washer/waxer combination unit costing \$22,000. The unit was stored inside the railcar which was parked on private property next to the landowner's packingshed. But since the project did not produce crops on a commercial scale as expected, this equipment was not used. Mission officials elaborated:

...The equipment in question is post-harvest processing equipment for fruits and vegetables. The cooperatives experienced crop failures due to various production factors -- including uncontrolled diseases, delays in financing from credit institutions, and subsequent lack of timely production inputs and irrigation. Therefore, the equipment was not used. The equipment was procured in anticipation of a perceived need that crops would be available for packing and for conducting extensive marketing trials.

Our review also disclosed that project funds had been spent to refurbish the privately-owned packingshed located next to the parked railcar. Although, A.I.D./Belize had approved an estimated \$2,400 in project funds to make the improvement, required written approval of the A.I.D. contracting officer had not been obtained. In a related matter we noted that BABCO had paid the landowner a \$50 monthly fee from project funds to store BABCO equipment on the landowner's property, even though no lease existed between BABCO and the landowner. This informal arrangement created legal concerns. For instance, if an injury occurred to a third party while using the equipment on the landowner's property, no contract provisions would be available to relieve BABCO and A.I.D./Belize of potential legal liabilities or damages.

Project inventory and procurement practices were inadequate because Chemonics did not adhere to A.I.D. policy and to the Federal regulations stated in its A.I.D. contract, and because A.I.D./Belize did not properly monitor and enforce Chemonics's performance on these contract provisions. Consequently, about \$355,000 in nonexpendable equipment procured for the project was not fully accounted for and certain procurement and refurbishing arrangements had questionable value to the project.

On December 8, 1989, A.I.D.'s Regional Contracting Officer (RCO) requested Chemonics to submit a completed project inventory of all nonexpendable

property by January 15, 1990. In addition, the RCO advised Chemonics of A.I.D.'s intent to disallow costs associated with the refurbishment of the privately-owned packingshed. Also, the A.I.D./Belize Representative requested that BABCO provide by January 31, 1990 a plan to address the use or disposition of the refrigerated railcar.

Management Comments

A.I.D./Belize concurred with all parts of the recommendation. With respect to recommendation 2a., A.I.D./Belize did not accept the June 16, 1989 inventory certification prepared by Chemonics because the inventory was incomplete. A.I.D./Belize stated that the Regional Contracting Officer (RCO) requested Chemonics three times in writing to provide a complete inventory to BABCO. To date there has not been a satisfactory response. As a result, the RCO has instructed A.I.D./Belize that current and remaining Chemonics' billings should not be paid until a complete inventory is received and is acceptable to the RCO. Concerning recommendation 2b., BABCO executed a short-term lease for the property on which the refrigerator railcar is located. Regarding recommendation 2c., A.I.D./Belize indicated that the equipment was procured in anticipation of a perceived need and that the equipment will be needed for the 1990-1991 crop season. A.I.D./Belize concurred with recommendation 2d and intends to deduct the refurbishing costs from an upcoming Chemonics voucher.

Office of Inspector General Comments

Recommendation 2a. is resolved but will remain open until Chemonics performs an adequate inventory of the nonexpendable equipment that it procured under the project. Recommendation 2b. is closed upon issuance of this report. Recommendation 2c. is resolved but will remain open until the equipment is either used or disposed of, and recommendation 2d. is also resolved but will remain open until the \$2,400 in questioned costs are recovered.

3. Certain Financial Issues Need Resolution

During the course of this audit it came to our attention that BABCO paid certain employees allowances--classified as entertainment and subsistence--which were in reality a part of their taxable salary. BABCO made these classifications so that the benefitting employee could either avoid or lower their Belizean income-tax liability on total salary. A.I.D. does not permit the reimbursement of unallowable costs. Entertainment costs are not allowable and subsistence costs are only allowable for host-country recipients when in travel status, not when they live and work in the same vicinity. As a result, A.I.D./Belize needs to recover from BABCO \$3,310 in entertainment and subsistence claims.²

Recommendation No. 3

We recommend that the Regional Contracting Officer for A.I.D./Belize:

- a. recover the equivalent of \$3,310 in unallowable entertainment and subsistence costs from the Belize Agri-Business Company, and
- b. prohibit the use of project funds for further payments of unallowable entertainment and subsistence costs by employees of the Belize Agri-Business Company.

Discussion

BABCO used project funds to finance payments of \$3,310 for employee entertainment and in-country subsistence allowances (the Exhibit to this report details these payments). The A.I.D./Belize project officer stated that BABCO made the classifications so that the benefitting employees could avoid payment of Belizean income tax on their total salary.

A.I.D. Handbooks 11 and 13 classify entertainment and subsistence expenses of local employees that live and work in the same area as unallowable cost items.

A.I.D./Belize's December 1988 financial review also took exception to these entertainment and subsistence allowances and recommended that they either be reclassified as salary payments or that A.I.D. not fund them at all. However, our audit revealed that these allowances had not yet been reclassified as salary payments or reported for income tax purposes.

² Our draft audit report also identified \$1,625 in unsupported cost claims made by BABCO. A.I.D./Belize later obtained additional documentation, reviewed it and concluded that it was satisfactory and the claims were valid.

Therefore, A.I.D./Belize needs to disallow these costs and require a refund from BABCO.

Management Comments

On March 9, 1990 BABCO refunded \$3,310 to A.I.D./Belize for unallowable entertainment and subsistence payments that BABCO employees had received under the project. A.I.D./Belize further stated that BABCO has assured the Mission that it will no longer request payment for entertainment and subsistence allowances. A.I.D./Belize also reviewed documentation applicable to our previously reported unsupported cost claims and found it to be acceptable.

Office of Inspector General Comments

Based on A.I.D./Belize actions recommendations 3a. and 3b. are closed upon issuance of this report.

C. Compliance and Internal Controls

Compliance

There were four compliance exceptions noted in our audit. First, BABCO did not adhere to Belizean law requiring annual audits of its operations (Finding 1). Second, A.I.D./Belize did not enforce a cooperative agreement provision that required BABCO to have adequate accounting and internal controls before disbursing A.I.D. advances (Finding 1). Third, Chemonics did not adhere to U.S. Government inventory reporting regulations that were contained in its A.I.D. contract, while A.I.D./Belize and BABCO did not adequately monitor and enforce these contract provisions (Finding 2). Fourth, BABCO did not comply with A.I.D. Handbook 11 and 13 and paid \$3,310 in unallowable entertainment and subsistence expenses (Finding 3). Our review of compliance was limited to those tests necessary to accomplish the objectives of our audit.

Internal Controls

There were two internal control exceptions noted in our audit. First, BABCO had not established acceptable accounting and internal control procedures (Finding 1). Second, Chemonics did not establish acceptable inventory controls over project equipment and A.I.D./Belize had not adequately monitored or enforced the establishment of acceptable inventory controls (Finding 2). Our review of internal controls was limited to those tests necessary to accomplish the objectives of our audit.

**AUDIT OF A.I.D./BELIZE'S
COMMERCIALIZATION OF ALTERNATIVE CROPS
PROJECT NO. 505-0008**

PART III - EXHIBIT AND APPENDICES

SCHEDULE OF QUESTIONED ENTERTAINMENT AND SUBSISTENCE COSTS

<u>Date</u>	<u>Check or Voucher Number</u>	<u>Transaction Description</u>	<u>Questioned Cost (B\$)</u>
12/17/86	162637	Ag. Economist Subsistence Allowance	432.25
12/17/86	162638	Ag. Economist Subsistence Allowance	432.25
12/17/86	162639	Agronomist Subsistence Allowance	477.41
12/17/86	162640	Agronomist Entertainment Allowance	477.41
12/17/86	162641	Administrator Subsistence Allowance	600.00
12/17/86	162642	Administrator Subsistence Allowance	600.00
04/09/87	162667	Ag. Economist Entertainment Allowance	1,200.00
04/09/87	162668	Agronomist Entertainment Allowance	1,200.00
04/09/87	162669	Administrator Entertainment Allowance	1,200.00
Total Questioned Cost (B\$)			<u>6,619.32</u>

Total Questioned Costs
 Converted to U.S.\$
 (U.S.\$1.00 = B\$s2.00)

\$3,310.00

EXHIBIT

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A. I. D. MISSION TO BELIZE
EMBASSY OF THE UNITED STATES OF AMERICA
BELIZE CITY, BELIZE, CENTRAL AMERICA

APPENDIX 1
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April 6, 1990

UNCLASSIFIED
MEMORANDUM

TO : RIG/A/T, Coinage N. Gothard, Jr.
FROM : A.I.D. Representative, Mosina H. Jordan
SUBJECT : Draft Audit Report on AID/Belize's
Commercialization of Alternative Crops,
Project No. 505-0008

We have reviewed the subject draft audit report and appreciate the opportunity to respond to it. We constructively answered the recommendations contained in the draft report, and in applicable cases corrective actions have already been completed or are underway.

We request RIG/A/T to either modify or eliminate various recommendations in the final audit report. I assure you that we have attempted to be as constructive and objective as possible and I hope that this is reciprocated in your preparation of the final draft.

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Introduction

The Audit of the Commercialization of Alternative Crops (CAC), A.I.D. Project No. 505-0008, conducted by the RIG/A/T is of limited value to USAID/Belize in addressing project implementation issues. USAID/Belize initiated and requested the audit performed on the CAC project. The request for an audit of this particular project was based on (1) the high turnover of contract staff; (2) a conflict of interest issue that resulted in the removal of the Chief-of-Party; and (3) the poor performance by the international contractor who was responsible for the implementation of the project. The draft report mentioned that the audit scope did not include the contract firm which received a \$3.4 million contract to carry out the implementation responsibilities of the project. USAID/Belize is unable to understand why the audit effort did not consider the prime contractor's implementation effectiveness. This omission added to the incompleteness of the report.

USAID/Belize believes the auditors have taken a number of situations described in the report out of context. Statements contained in the report lack technical understanding of the biological and agricultural sciences involved. The result is a draft report which is incomplete and does not provide a realistic view of the progress made by the project.

We believe the auditors have misinterpreted a major purpose of the project which is to identify and test the agronomic and market feasibility of two crops for export. The project did not, nor was it intended to, provide financing that would allow the production of 13,000 acres of crops discussed in the draft report. Rather, the 13,000 acres were seen by the designers of the project and viewed by USAID/Belize as the productive capacity of the target region. In other words, it was not an intended target to be financed by the project but rather an anticipated target resulting from the activities financed by the project.

Anyone reading the draft report would be led to believe that USAID/Belize slept while CAC was burning. The Mission believes this is an inaccurate and incomplete perception.

The draft report on the CAC Project has mainly focused on the planning and implementation problems that occurred in the first two years of a five-year project. Ignored are the corrective actions initiated by project management in the subsequent two years, to strengthen project implementation and place it in a position to achieve the project goal and objective(s).

The primary objective of the project is to conduct applied agriculture research to identify two crops for export that can be commercialized in Belize upon project completion. We believe the auditors have misinterpreted the objective. The draft report has not considered the successes of the project, which we will articulate, including the identification of viable export crops and viable import substitution crops.

On September 25, 1985, the Cooperative Agreement with a Project Assistance Completion Date (PACD) of September 30, 1990, was signed between BABCO and USAID/Belize. The technical assistance contract with Chemonics was signed on May 12, 1986, in effect commencing implementation of the project. The project evaluation, done in 1988 by an independent outside team, concluded that ten years were more appropriate to carry out the USAID-financed diversification activities in Belize which the Project Paper envisioned. An additional two years were added to the total life of the project in accordance with the evaluation. All indications show that with the remaining funds, the additional time and the new strategies developed as a result of lessons learned by the project managers and implementors (BABCO), the project will have a realistic chance of success.

The first paragraph of page one of the Executive Summary should include the fact that project implementation did not actually commence until May 1986, and that the PACD has been extended by an amendment to the Agreement to December 31, 1992 with no increase in the LOP funding.

USAID/Belize believes the auditors did not comprehend the complex technical factors needed to objectively review and analyze the project status. Their findings, conclusions and recommendations therefore, in our opinion, reflect an incomplete assessment of the project.

In our response, we have addressed major areas of the draft report which USAID/Belize believes have been incompletely addressed by the auditors. Our objective in this process is to provide as complete a picture as possible of the events and problems concerning the project. We believe this approach will be useful in filling the many technical gaps and inconsistencies which prevail throughout much of the draft report's presentation.

Finding No. 1:

"The Project's Viability is Questionable

"Were the stated objectives of the project being achieved?"

"Program targets established in the Project Paper were unrealistic and will not be achieved. A.I.D. policy calls for project planners to establish realistic targets that have a reasonable chance of being met. However, project planners over-estimated the number of farmers who would want to diversify their crops and underestimated the level of difficulty involved in entering the export market. Poor communications and inadequately defined beneficiaries further stagnated the pace of project implementation. As a result, \$4.8 million private-sector component of this project has floundered: although 80 percent of the project's life had expired and \$3.9 million had been obligated, farmers had planted alternative crops on only 209 acres or about 2 percent of the total 13,000 acres envisioned under the project.

"Recommendation No. 1

We recommend that A.I.D./Belize, in conjunction with the Belize Agribusiness Company, determine what can reasonably be achieved during the remaining life of the Commercialization of Alternative Crops Project No. 505-0008 and either redefine and formalize the project's targets or cancel the project and deobligate unused funds. If the project is allowed to continue, A.I.D./Belize must ensure that eligible project beneficiaries are clearly defined."

Mission Response

The program targets and assumptions established in the Project Paper were developed with the information available at the time the project was designed. One element of the project was to conduct applied research and use the results to test the designers assumptions. The process of research and testings provided project implementors with the information to make adjustments in program targets and assumptions. This process was an integral part of the project and gave implementors the scientific data to make rational decisions regarding implementation. The process led to the refinement of program targets which have been incorporated into the Amendment for this project.

BABCO tested 22 alternative crops. The intention was to determine agronomic viability under Belizean climatic conditions and to select the most advantageous to the area given production capabilities. Those crops selected for possible commercialization would then be test-marketed to develop a complete technology package from production to post-harvest handling to marketing. The process just described deals with a number of complex factors which incorporate advanced technology dealing with ground tillage, crop production, disease and insect control, post-harvest handling and shipping to a foreign port. The acceptance process by farmers requires a sufficient time period to allow potential producers to become familiar with new and complex activities before they can profitably use them.

The Project Paper calls for the identification of two (2) export crops and, if viable after testing, promotion of the production of oilseeds as import substitution crops. In mid-1988, the production and market testing of papayas was considered complete and commercialization was begun. The first commercial plantings of papaya using BABCO's recommendations (tech package) started to produce and ship papayas in February 1989. The tech packages for two other crops, cucumbers and squash, have also been developed for commercialization. In the case of oilseeds, soybeans were found to be viable as an animal feed supplement, and their production is being promoted and is expected to reach maximum viable production levels (2,000 acres) before the PACD of December 31, 1992. Given that these crops -- papaya, cucumber, squash and soybean -- have reached a level where they can be commercialized, the project has met one of its primary objectives of identifying two export crops and one import-substitution crop for commercialization.

The reduction in the targeted production acreage was based on financial viability considerations, more than on farmer response as indicated by the auditors. The previously targeted 3,000 acres of export crops was based on the assumption that the export crops would be winter vegetables (such as melons and cucumbers) as discussed on page 32 of the Project Paper. The crops being promoted instead are tropical fruits, mainly papaya, that are much more suited to Belize and are more profitable, sustainable and which have safer markets than winter vegetables. These changes in the potential targeted crops were a result of the identification and testing process which was carried out under the project. For example, the project tested the hypothesis that winter vegetable crops should be commercialized. During testing, it was found that tropical fruits were a more viable candidate for commercialization given the productive capabilities of the target farmers and the results of the applied research trials

conducted under the project. The economic returns for 1,200 acres of tropical fruits were expected to be the same or greater than 3,000 acres of winter vegetables, with much less market risk. However, the cost and time for the establishment of these tropical fruits are also greater, therefore the decrease in the acreage that farmers would plant by PACD is more realistic. In other words, project management made changes in the targeted crops based on actual field-trial research findings.

As discussed on pages 29 and 30 of the Project Paper, the economic analysis assumed that 6,000 acres of soybeans and 4,000 acres of sesame would substitute for 6,000 acres of corn, 5,000 acres of beans, and 4,000 acres of rice. It is also stated that should any of these crops, i.e., soybeans and sesame, be grown on expanded acreage rather than replace existing domestic consumption crops, the benefits would increase beyond those portrayed in the economic analysis. In effect, 2,000 acres of soybeans are targeted to be grown on expanded acreage, since the domestic demand and profitability of corn, beans and rice remains positive, while the returns on sesame are still negative, making the production of the latter an unrealistic project target. This explains the removal of the 4,000 acres of sesame, as a replacement for assumed decreases in corn, rice, beans and sugarcane production, from the project targets.

The Project Paper also assumes that the soybeans and sesame would be processed and the oil extracted. It has been shown that it is not cost effective to extract oil from these crops in Belize. This means that the project target of reducing oil and lard imports through the production of soybeans and sesame for local processing and consumption was unrealistic. Full-fat roasted soybeans can be used to replace one-third of the protein requirements of animal feeds, limiting the domestic market for soybeans to 2,000 acres. These facts, together with the continued viability of rice, corn, beans and sugarcane, explain the reduction in soybean acreage from 6,000 to 2,000.

These revised targets were formally accepted by the A.I.D. Representative in an Action Memorandum dated September 15, 1988, based on the findings and recommendations of the independent evaluation, and formalized in the CAC Project Paper Amendment of December 31, 1989.

The draft report states that the technical contractor noted poor, limited, and sometimes strained communication between participants in the project. USAID personnel attended all BABCO Board meetings, made frequent field site visits, including senior management, and participated in yearly reviews

conducted by the technical contractor. The technical contractor's headquarter staff made field site visits to monitor implementation, including senior management personnel. In 1988, an evaluation was conducted by an independent team to review progress in which the technical contractor participated. During all the foregoing activities in which project participants interacted the problem of communication did not surface as a major issue. The project is complex with many participants and the chances for misunderstanding are inherent. Far more significant vis-a-vis project implementation was the prime contractor's questionable performance.

Statements in the finding regarding the number of acres planted is a misinterpretation of the objectives stated in the Project Paper and indicates the lack of technical understanding regarding the project.

The project's objectives were not to test 13,000 acres of crops. The project's objectives were to test the viability of various crops that had the potential for export and import substitution, replacing sugarcane and other basic grains. It was assumed that 13,000 acres would be taken out of traditional crop production and replaced with non-traditional crops.

The profitability of the traditional crops, specifically sugarcane, did not drop enough for farmers to stop producing them in the short term, and this acreage was not taken out of production, nor is there any indication that there is now any need for farmers to reduce their production of these commodities. Ironically, during the last two years of project implementation, the price of sugar has increased from US\$.07 a pound to US\$.14 a pound. Additionally, the U.S. government has increased its sugar quota to Belize by 3,026 metric tons for the current production year (1990). These factors of sugar demand (which during project design were extremely depressed) falsely provided high optimism at the time for quick acceptance of commercialized crops. USAID/Belize recognizes this short-coming. The reality of the situation is that sugar has again become a high value crop which creates disincentives for farmers to accept higher risk, non-familiar, diversified crops under the project. Any acreage dedicated to producing the crops identified by the project would be a supplement, not a replacement, to the traditional crops. The project-stated goal and purpose for increased income and foreign exchange will still be fulfilled.

The figure stated by the auditors of 209 test acres by itself is incorrect. This acreage represents BABCO's formally managed tests, but does not include other acreages (described below)

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tested by commercial farmers using technology introduced by BABCO and using BABCO's advice and supervision during production.

In soybeans alone there has been 352 field-trial acres tested. The 90 acres in the ground at the time of the RIG audit in November and December 1989 were the off-season seed crop that will supply the seed for the annual main crop that is planted in June (1990). Plans are in place for 40 farmers in the three target districts (Cayo, Orange Walk and Corozal) to plant 600 acres in June 1990 using the 90 acres of seed soybeans. One thousand acres are planned for 1991.

As a result of BABCO activities, 164 acres of papayas have been planted, 352 acres of soybeans, and 181 acres of other crops, for a total of 697 acres to date.

In addition, 200 acres of passion fruit, 100 acres of papayas and 30 acres of mixed exotic fruit trees are in seed-bed stage for various commercial farmers. Over 600 acres of soybeans are scheduled for June planting, for which the seed is now being harvested. This brings the total planted and planned acreage to 1,627 acres as opposed to the 209 acres claimed by the audit team. The 209 acres are for field-trial testing to determine agronomic feasibility, and represent the research and development aspects of BABCO's activities under the project. Again it is restated that BABCO's major objective is to conduct research and development activities on a field trial basis and not be responsible for the planting of 13,000 acres of commercialized crops.

The draft report states that costs have "skyrocketed to \$18,660 per acre." It is nonsequitur to make this kind of comparison at this stage of project implementation since the project is still in the research and development testing stage. The commercialization stage and the "\$300 per acre cost using original project targets" was based on an after-project scenario. However, taking the comparison, using the auditors hypothesis parameters, the figure would be \$2,428 per acre based on the 1,627 acres planted under research and development.

Based on the recommendations of the 1988 evaluation which were used to amend the project agreement, the findings of the assessment completed in March 1990 which recommends the continuation of BABCO's activities, and the clarifications above, USAID requests that the recommendations in Finding No. 1 be closed by RIG/A/T.

Finding No. 2:

"Accounting and Internal Controls Were Unacceptable

"Recommendation No. 2

We recommend that A.I.D./Belize suspend payments to the Belize Agribusiness Company until:

- a. adequate accounting and internal controls are installed and certified as to their adequacy by an approved independent accounting firm, and
- b. the independent accounting firm, currently auditing the financial affairs of the Belize Agribusiness Company, corrects and publishes an accurate audit report for financial years 1986, 1987, and 1988."

Mission Response

The Mission was aware of Finding No. 2 and had initiated corrective actions prior to RIG/A/T's audit. The Mission did a detailed financial review in the Fall of 1988 with a resulting report dated December 14, 1988. A follow-up internal review was made in the Fall of 1989 with a report issued November 13, 1989. As a result of our Fall 1988 review, BABCO engaged Price Waterhouse (PW) to establish internal controls, reconstruct key records and install computerized accounting procedures.

USAID recognizes its inability to provide adequate financial monitoring during the early phase of the project because of staff limitation.

However, it should be noted that BABCO attempted to account for funds even if in a rudimentary manner. In early 1988, the BABCO Board engaged a local accounting firm to provide assistance. As it turned out, the results were not satisfactory. Consequently, BABCO terminated its contract with the accounting firm. As indicated earlier, USAID formally recommended that BABCO engage the services of a capable accounting firm to perform needed accounting and financial management services.

In addition, USAID suggested and BABCO agreed to retain the services of Price Waterhouse to (a) train and monitor BABCO personnel in carrying out procedures established by Price Waterhouse, and (b) review and certify all financial statements and claims submitted by BABCO to USAID.

During March 1990, Mission staff visited BABCO and found the following:

1. Adequate accounting procedures and internal controls were in place.
2. The computerized accounting system installed by PW became operational at BABCO starting January 1990. It is capable of generating the required accountability reports in accordance with the grant agreement's financial budget line item.
3. The financial statements prepared by PW for 1986, 1987 and 1988, were satisfactory and met standard criteria.

Based on the foregoing, we propose Recommendation No. 2 be closed.

Finding No. 3:

"Inventory and Procurement Practices Were Questionable

"Recommendation No. 3

We recommend that A.I.D./Belize:

- a. require the Chemonics International Consulting Division and the Belize Agribusiness Company to make an inventory of all non-expendable equipment procured for the Commercialization of Alternative Crops Project No. 505-0008. The cost of the equipment based on purchasing documents must be included as part of the equipment description.
- b. require the Belize Agribusiness Company to execute a short-term property lease with the landowner on whose property an A.I.D. financed refrigerated railcar and washer/waxer equipment are located in order to protect project assets.
- c. determine if the refrigerated railcar and washer/waxer equipment serve any useful purpose to Project No. 505-0008, and if so, put this equipment to immediate use at an appropriately determined location, or dispose of the equipment in accordance with A.I.D. policy, using any proceeds that may be gained from said disposal for valid project activities, and
- d. recover an estimated \$4,821 in project funds used to refurbish the papaya packinghouse for which there was no evidence of contracting officer approval."

Mission Response

- (a) The inventory of non-expendable equipment at BABCO was the responsibility of the prime contractor, Chemonics International Consulting Division (Chemonics). The documentation was supposedly handed over to BABCO by Chemonics on June 16, 1989. However, the information contained was incomplete and procedures for handing-over inadequate. BABCO itself has a system in place to monitor the inventory, and is awaiting a proper handing-over from Chemonics. The Regional Contracting Officer requested Chemonics three times in writing to provide a complete inventory to BABCO. As of this writing, Chemonics has not fully complied with the RCO's request. Consequently, the RCO has instructed current and remaining Chemonics billings not to be paid until a complete inventory is received and is acceptable to the RCO.
- (b) BABCO executed a short-term lease for the property on which the refrigerated boxcar is located.
- (c) The statement contained on page 27 that certain equipment had never been used requires clarification. If all circumstances surrounding the situation are presented, it becomes obvious that proper planning was carried out and the responsibility for the fact that the equipment was not used rests on factors completely out of BABCO's control. The equipment in question is post-harvest processing equipment for fruits and vegetables. The cooperatives experienced crop failures due to various production factors -- including uncontrolled diseases, delays in financing from credit institutions, and subsequent lack of timely production inputs and irrigation. Therefore, the equipment was not used. The equipment was procured in anticipation of a perceived need that crops would be available for packing and for conducting extensive marketing trials. It has not been disposed of because it will be needed for the 1990-91 crop which will be ready for harvesting within the next nine months. It would be imprudent and poor judgment for project management to dispose of the equipment now when an identical set of equipment will be required within nine months. USAID/Belize believes that scarce U.S. resources will be saved by holding the post-harvest equipment for the next crop cycle thereby saving the additional cost of procuring the equipment. In addition, GC/LAC has informed us that the property in question, in accordance with the OPG, is titled in the name of BABCO. This prevents A.I.D. from outright disposing of the post-harvest equipment as suggested by the auditors.

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- (d) We agree that the costs incurred in refurbishing the packing houses must be recovered. These costs will be deducted from the first available Chemonics billing approved by the RCO following settlement of the inventory issue.

USAID requests that Recommendations 3(b) and (c) be closed.

Finding No. 4:

"Certain Financial Issues Need Resolution

"Recommendation No. 4

We recommend that the regional contracting officer for A.I.D./Belize:

- a. recover \$3,310 equivalent in unallowable entertainment and subsistence costs from the Belize Agribusiness Company.
- b. review and resolve \$1,625 equivalent in unsupported cost claims made by the Belize Agribusiness Company, and
- c. prohibit the use of project funds for further payments of unallowable entertainment and subsistence cost by employees of the Belize Agribusiness Company."

Mission Response

- (a) BABCO has refunded \$3,310 to USAID. The refund check offsets the unallowable entertainment and subsistence costs first cited in the Mission's 1988 financial review of BABCO activities.
- (b) We reviewed the documentation supporting the claims totaling \$1,625. We concluded the claims were valid and that the supporting documentation was satisfactory.

We determined that the \$1,049 represented two valid payments from the market-research fund to a local bank to cover authorized financing of agricultural research inputs by two local participating farmers. The other two payments (totaling \$576) represented reimbursements made to Chemonics, Inc., for authorized freight charges paid by Chemonics on behalf of BABCO.

- (c) BABCO's use of project funds for entertainment and subsistence costs stopped in November 1987. BABCO

management has assured USAID such practices would not be resumed. Besides, USAID monitoring has confirmed such practices have not been repeated.

In light of the above, we ask RIG/A/T to close Recommendation No. 4.

Other Comments on the RIG/A/T Draft Audit Report

Auditors' Statement

In the second sentence of the second paragraph on page 8 the audit report states: "For those crops selected for domestic consumption and for export, the project consists of three basic components: (i) research, (ii) testing, and (iii) commercial production and marketing."

Mission Response

We believe the audit team misinterpreted the documentation available. The project calls for research and testing, which includes processing and marketing trials, but nowhere in the paper or in other documents are any plans, nor any budget, included or mentioned for any actual commercial production and marketing by the project. This means that it was not the intent, either expressed or implied, that 13,000 acres of commercialized crops would be produced by the project. It was not the responsibility of BABCO to produce crops but rather to develop through on-farm field research trials the technical packages to extend to potential producers.

Auditors' Statement

Also on page 8, third paragraph, third sentence, the lack of technical understanding by the audit team is again demonstrated by the statement: "Also, 88 of the total 185 acres in soybean had been discontinued by farmers due to general disinterest."

Mission Response

In Belize, there are two growing seasons, the "main" crop season which commences in June when the heavy rains start and continues to October, and the "second" crop season which starts in November and continues to February, when the dry season begins. The "second" crop is characterized by less total rainfall and shorter day-lengths, and greater difficulty in land preparation, due to a lack of a marked dry season prior to planting. Therefore, 185 acres were produced during the first crop season and 97 acres were produced during the second crop season.

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Cayo district has more rainfall during both the "main" and the "second" cropping seasons. For the "main" cropping season, soybeans grew better in Corozal and Orange Walk districts, because Cayo district has too much rain which lowers yields. For the "second" cropping season, Orange Walk and Corozal have too little rain, so the soybeans grow better in the Cayo district. However, the Cayo "second crop" yields are lower than the Orange Walk and Corozal "main crop" yields. Therefore, Cayo only grows enough soybeans for seed purposes.

Therefore, the main annual crop is grown in Orange Walk and Corozal during June to October, and a smaller crop to supply the seed for the main crop is grown during November to February in Cayo.

Last year, 1989, 200 acres of soybeans were grown in Orange Walk and Corozal as a main crop from June to October. Ninety acres were planted in Cayo in November 1989 (when the RIG audit team was auditing the CAC project) to supply seed for the 600 acres scheduled to be planted in June 1990. However, the audit team claims that 88 out of 185 acres were "discontinued" due to farmer "disinterest."

USAID/Belize believes the above situation does not demonstrate farmer disinterest, but rather describes the technical agricultural factors of producing seeds for soybeans planting.

Auditors' Statement

On pages 9 and 10, the report stated "We visited three farms and noted that all of the farmers had chosen to plant sugarcane on an overwhelming basis."

Mission Response

The purpose of the project was not to replace sugarcane with other crops, but to augment farmer income by introducing additional crops which could reduce dependence on one crop.

Sugarcane continues to be the major export crop in Belize. Farmers still consider it the safest and easiest to grow. Sugar prices have increased. Once planted, sugarcane produces for up to 8 years. Never did USAID/Belize, in its most optimistic view (nor did the designers of the project), expect that sugar would be abandoned as the principal crop in Belize. This situation is discussed on pages 29-32 of the Project Paper.

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Auditors' Statement

In the last paragraph of page 10 and the first paragraph of page 11, the auditors discuss the attempts of BABCO and USAID/Belize to obtain assistance from commercial banks and lending institutions for the financing of alternative crops. The report states: "In order to counteract this disinterest, USAID/Belize and BABCO sought to provide the farmers an incentive through preferred credit arrangements from commercial banks and lending institutions."

Mission Response

USAID/Belize and BABCO sought to obtain approval from the banks and other lending institutions to accept the alternative crops, especially papayas, and finance them just as they would any other crop under standard arrangements of interest and collateral. USAID/Belize and BABCO did not attempt to obtain "preferred credit arrangements" to counteract farmer disinterest. We attempted to remove a bias against alternative crops by the lending institutions by promoting the viability and potential economic returns of the alternative crops. Lending institutions in Belize are traditionally biased against agriculture that is not "market safe" -- such as sugar or citrus, the traditional crops. There are thousands of farmers in Belize with whom the lending institutions do business where traditional crops are involved, but only farmers who meet high collateral conditions and have other cash sources for servicing loans can expect to qualify for financing of new crops. Also, the banks regularly carry out "farmer recruitment drives" to satisfy governmental licensing requirements. These "drives" produce a majority of farmers who will not qualify or who are not interested in dealing with the banks.

Auditors' Statement

The third paragraph on page 12 states: "Relationships between BABCO, Chemonics, and the subcontractors had deteriorated to the point that with a year's project activity remaining, Chemonics and five of its six subcontractors have abandoned the project."

Mission Response

The above statement is incomplete. Chemonics' contract with USAID/Belize for technical assistance to BABCO is not due to expire until June 30, 1990. The scheduled tours of duty for the long-term technical assistance staff, as specified in the contract at the beginning of project implementation, have been completed. Long-term staff has departed, not abandoned, the

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project. In fact, at the time that the audit team was in Belize, two of the Chemonics short-term consultants were in-country assisting BABCO with the nursery and the tropical fruit trials. As to the subcontractors, their subcontracts were basically for two to three years, and these were completed as scheduled. The remaining subcontract, with the Caribbean Agricultural Research and Development Institute (CARDI), is ongoing for soybean production research.

Auditors' Statement

On page 14, the auditors state: "Because targeted beneficiaries were defined so generally, there was confusion by A.I.D./Belize on whether or not the former Chief-of-Party was an eligible beneficiary."

Mission Response

This is an erroneous statement. There is ample documentation in the USAID/Belize files demonstrating it was always clear to the USAID staff that the former Chief of Party was not an eligible beneficiary. (Evidence of this can be found in Case No. T880045 investigated by the RIG). USAID/Belize was not confused that the project beneficiaries were Belizean farmers who were primarily sugarcane producers or other Belizean farmers who were willing to try non-traditional crops.

In addition, USAID/Belize does not share RIG/A/T's interpretation that only Belizean sugarcane farmers should be eligible beneficiaries. The project was designed to include farmers in the Cayo district, which has no sugarcane farmers. Therefore, the interpretation that the project beneficiaries are Belizean sugarcane farmers, and any other Belizean farmer willing to diversify, is technically sound.

Auditors' Statement

On Page 34 of the report the auditors stated: "BABCO and Chemonics did not use a refrigerated boxcar and washer/waxer equipment subsequent to procuring them and USAID/Belize and BABCO did not evaluate or effectively monitor the procurement (Finding 3)."

Mission Response

USAID/Belize did evaluate and monitor the procurement of the post-harvest equipment. Contained in USAID's project files are minutes from the BABCO Board of Directors (BOD) meetings for the period January 1987 to October 1988 which document discussions regarding post-harvest equipment (refrigerated boxcar) and USAID's concerns regarding the procurement.

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USAID believes the record shows that we did evaluate the procurement of post-harvest equipment (the refrigerated boxcar). We believe that our actions were thorough, pragmatic and carried out (from January 1987 to October 1988) over a sufficient period of time. The refrigerated boxcar was not used immediately after its procurement. This was due to crop failures and management problems incurred by the Cooperative with whom BABCO had arranged to carry out the marketing trials. USAID recognizes that procurement of the refrigerated boxcar may have been premature. However, in our judgment, the procurement was evaluated and monitored in accordance with A.I.D. regulations.

Auditors' Statement

The auditors stated on page 5 of the report, "Belizean farmers were generally disinterested in planting the more labor intensive high-risk alternative crops."

Mission Response

USAID does not understand the conclusion reached by the auditors in the above statement. Belizean farmers were disinterested in planting the "high-risk" winter vegetables, because of the high financial risk involved, but not because they are labor-intensive, as the statement implies. This disinterest does not apply to the other alternative crops, namely the import-substitution soybeans, and certainly not to the tropical fruits, for which there is a high level of interest, as the recent crop diversification assessment by independent consultants for USAID/Belize points out. Additionally, the large number of farmer visits and inquiries received at BABCO's offices and especially the tropical fruit tree nursery (which was established in April of 1989 and expanded in December of the same year) does not support a lack of interest by Belizean farmers as stated in the report.

Auditors' Statement

The auditors stated on page 34,

"BABCO has violated Belizean law. Annual audits have not been made as required by law (Finding 2)";

and on page 19, they stated,

"Moreover, the BABCO Board of Directors had not complied with Belizean law requiring annual audits until they were informed by A.I.D./Belize that our audit had been scheduled."

Mission Response

USAID disagrees with the auditors' statement that BABCO violated Belizean law nor did BABCO wait until the RIG audit to comply with audit requirements.

Belizean law requires the Board of Directors of registered companies to appoint auditors annually, to audit the previous year's transactions.

BABCO's operations commenced in May 1986. In April 1987, the BABCO BOD investigated the appointment of auditors, to cover the period May 1986 to April 1987. They were advised that since the volume of transactions (about a dozen or less per month) was so low, they should wait until the end of 1987 and appoint auditors to do the half-year of 1986 and the whole year 1987, which would then bring them in line with the normal calendar-year reporting done by companies in Belize for income tax purposes. It should be taken into consideration, however, that BABCO as a non-profit company does not pay taxes, and there was no urgency to meet any tax-reporting deadline.

At the January 14, 1988, BABCO BOD meeting, it was decided that one of the Directors would assist the Administrator to prepare a scope of work for a public request for bids to do the audit, in line with A.I.D. procurement procedures. Swift and Associates was selected for the exercise. They visited the BABCO offices numerous times during the first half of 1988, inspected the accounts and reconstructed ledgers, and promised that the accounts and the audit would be completed "shortly." By the third quarter of 1988, when it became obvious that the report was overdue, the BABCO Administrator started to send letters requesting the report and finally cancelled their contract for non-compliance. By early 1989, after another round of requests for bids, Price Waterhouse was appointed as auditors, to do 1986, 1987 and 1988. Price Waterhouse was also appointed to do the audit for 1989. In our judgment, BABCO did not violate Belizean law regarding the requirement of annual audits.

APPENDIX 2

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