

**AUDIT OF THE  
DIVERSIFIED AGRICULTURE RESEARCH  
PROJECT IN SRI LANKA**

**PROJECT NO. 383-0058  
AUDIT REPORT NO. 5-383-91-01  
JANUARY 31, 1991**

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**Project evaluators and others have reported significant project achievements. In spite of these accomplishments, there have been significant delays in the areas of commodity procurements and construction, and actual project progress was difficult to objectively measure because quantifiable indicators were not adequate for measuring the progress toward accomplishing the project's objectives. In addition, some project commodities were not used effectively, revisions to the amount A.I.D. reimburses the Government of Sri Lanka for construction activities should be reviewed by the A.I.D. Regional Legal Advisor, and there was insufficient assurance that the Government of Sri Lanka provided its required project contributions.**

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT

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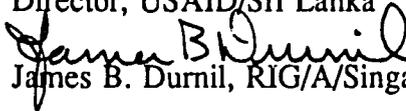
January 31, 1991

MEMORANDUM FOR

Richard Brown

Director, USAID/Sri Lanka

FROM:

  
James B. Durnil, RIG/A/Singapore

SUBJECT:

Audit of the Diversified Agriculture Research Project in  
Sri Lanka

Enclosed our five copies of our audit report.

We have reviewed your comments on the draft report and included them as an appendix to this report. Based on your comments, Recommendation Nos. 2, 3, 4, 9, and 13 are closed. Recommendation Nos. 1, 5, 7, and 11 are resolved and can be closed when appropriate actions are completed. Recommendations Nos. 6, 8, 10, and 12 are unresolved.

Please provide us information within 30 days, indicating any actions planned or taken to implement the open recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit.

## EXECUTIVE SUMMARY

The overall objective of the **Diversified Agriculture Research Project in Sri Lanka** is to strengthen the Government of Sri Lanka's ability to generate and effectively transfer the technologies and seeds which will increase and sustain production of numerous subsidiary field crops such as chillies and corn on small farms.

The project was approved on August 9, 1984, and is to be completed by August 31, 1993. The total project costs are estimated at \$21.3 million with A.I.D. and the Government of Sri Lanka providing \$14.6 million and \$6.7 million, respectively. A.I.D. obligations and expenditures as of August 31, 1990, were \$14.6 million and \$7.3 million, respectively.

Between June 4 and August 31, 1990, we audited the project in accordance with generally accepted government auditing standards (see Appendix I) and found the following:

- Project evaluators and others have reported significant project achievements. However, there have been significant delays in the areas of commodity procurements and construction and actual project progress was difficult to objectively measure because quantifiable indicators (targets and timeframes) were not adequate for measuring progress toward accomplishing the project's objectives (see page 4 and 5).
- The technical assistance contractor provided workplans and progress reports but these documents did not contain sufficient information which would enable USAID/Sri Lanka to adequately measure the contractor's performance and project progress. As of August 31, 1990, \$3.6 million has been paid for technical assistance(see pages 5 to 8).
- USAID/Sri Lanka and the technical assistance contractor followed A.I.D. procedures for planning participant training and monitoring participants' performance to ensure satisfactory progress; but they did not always follow A.I.D. procedures for selecting candidates based on their English language proficiency and ability to pass a medical examination. USAID/Sri Lanka did not have a system to ensure that the Government of Sri Lanka assigned participants to work where they could effectively use their training (see pages 8 to 14).

- USAID/Sri Lanka and the Government of Sri Lanka generally followed A.I.D. procedures for planning commodity procurements, awarding contracts for commodities, and providing an adequate accounting for the receipt of commodities purchased in-country; but commodity procurements have been delayed and some commodities purchased have not been used timely and effectively. In addition, USAID/Sri Lanka needs to determine whether \$78,000 should be collected from the Government of Sri Lanka for the unauthorized use of project vehicles, determine if \$518,062 in uncommitted funds for commodities is needed and can be efficiently spent, and take stronger actions to resolve continuing problems causing procurement delays (see pages 14 to 23).
- The construction completed to date complied with A.I.D. regulations. However, the construction has experienced significant delays. Also, USAID/Sri Lanka needs to determine the propriety of revising the amounts to be paid under the fixed amount reimbursement method of payment (see pages 24 to 29).
- USAID/Sri Lanka did not take sufficient steps to ensure the Government of Sri Lanka provided its required project contributions (see pages 29 to 33). Also, it did not ensure the Government of Sri Lanka complied with the project agreement requirement for periodic audits of project activities (see pages 34 to 36).
- USAID/Sri Lanka did not establish adequate quantifiable indicators to objectively measure and report on the project's progress. Furthermore, it needed to improve its existing system for following up on the implementation of project evaluation report recommendations (see pages 36 to 41).

It should be noted that during the period covered by this audit, Sri Lanka experienced considerable violence and civil unrest. Frequent disruptions occurred to both A.I.D. and Government of Sri Lanka operations which directly affected project activities.

The report contains 13 recommendations. It also presents our assessment of internal controls (see page 42) and reports on USAID/Sri Lanka's, the technical assistance contractor's and the Government of Sri Lanka's compliance with applicable laws, regulations, and contractual obligations (see page 48).

A draft of this report was provided to USAID/Sri Lanka officials for comment. In responding to the draft report, they stated that overall they found the report to be useful in focusing on possible vulnerabilities in their project management systems. However, they also believe that the report did not fully reflect early efforts made by project staff to resolve project problems nor the full range of the project's achievements and their

importance. They considered the Diversified Agriculture Research Project amongst the better performing projects in their portfolio and believe that the audit process has further strengthened it. USAID/Sri Lanka's comments are summarized after each finding and included as Appendix II to the report.

*Office of the Inspector General*

Office of the Inspector General  
January 31, 1991

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# INTRODUCTION

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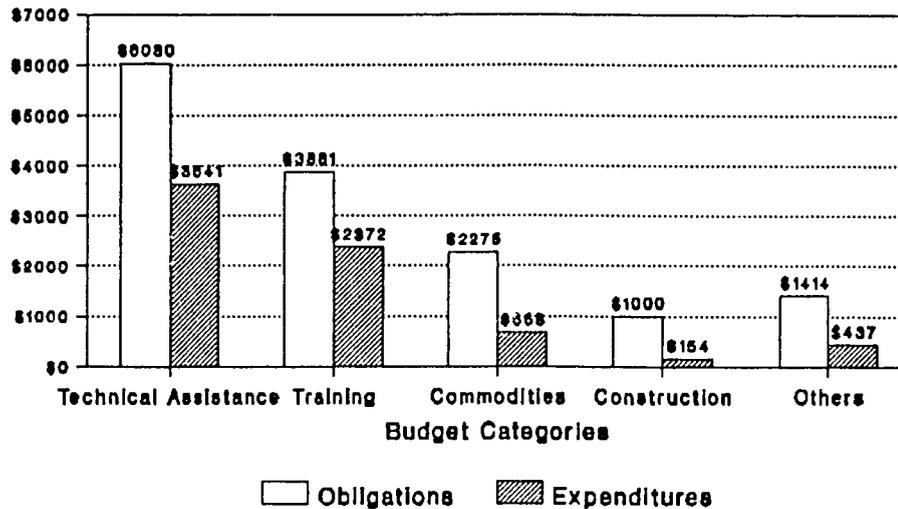
## Background

The overall objective of the **Diversified Agriculture Research Project in Sri Lanka** is to strengthen the Government of Sri Lanka's ability to generate and effectively transfer the technologies and seeds which will increase and sustain production of numerous subsidiary field crops such as chillies and corn on small farms. This was to be accomplished by increasing the number of trained personnel engaged in crop research and seed production; improving facilities at research stations and seed farms; improving seed production, processing and distribution systems; and increasing the number of high yield crops.

The Government of Sri Lanka is responsible for providing all funds, in addition to A.I.D. funds, and all other resources required to carry out the project effectively and in a timely manner. The Government's Department of Agriculture within the Ministry of Agricultural Development and Research is responsible for the implementation of this project. A technical assistance contractor was hired to help the Government in achieving the project objectives. USAID/Sri Lanka is responsible for monitoring the project to ensure compliance with the terms and conditions of the project agreement and to ensure the effective and efficient use of A.I.D. funds.

The project was approved on August 9, 1984, and is to be completed by August 31, 1993. The total project costs are estimated at \$21.3 million with A.I.D. and the Government of Sri Lanka providing \$14.6 million and \$6.7 million, respectively. As illustrated below, A.I.D. obligations and expenditures (as of August 31, 1990) were \$14.6 million and \$7.3 million, respectively.

## OBLIGATIONS AND EXPENDITURES As of August 31, 1990 (in \$thousands)



### Audit Objectives

The Office of the Regional Inspector General for Audit/Singapore audited USAID/Sri Lanka's Diversified Agriculture Research Project to answer the following audit objectives:

1. What is the progress of the project?
2. Did USAID/Sri Lanka ensure the technical assistance contractor provided workplans and reports required by the contract?
3. Did USAID/Sri Lanka follow A.I.D. procedures in (a) planning for participant training, (b) selecting participants, (c) monitoring long-term participants' performance to ensure satisfactory progress, and (d) ensuring that returned participants were assigned to work where they effectively use their training?
4. Did USAID/Sri Lanka and the Government of Sri Lanka follow A.I.D. procedures in (a) planning for commodity procurements, (b) awarding contracts for commodities, (c) providing an adequate accounting for the receipt of commodities,

and (d) ensuring the timely and effective use of commodities?

5. Did USAID/Sri Lanka and the Government of Sri Lanka follow A.I.D. procedures in obtaining (a) qualified and eligible construction contractors at a fair price; and (b) timely, effective, and efficient construction services?
6. Did USAID/Sri Lanka ensure the Government of Sri Lanka provided its required project contributions?
7. Did USAID/Sri Lanka ensure that required audits were made of project activities?
8. Did USAID/Sri Lanka follow A.I.D. procedures in monitoring, evaluating, and reporting on the project's progress?

In answering these audit objectives, we tested whether USAID/Sri Lanka, the Government of Sri Lanka, and/or the technical assistance contractor (1) followed applicable internal control procedures and (2) complied with certain provisions of laws, regulations, and contractual obligations. Our tests were sufficient to provide reasonable—but not absolute—assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Sri Lanka, the Government of Sri Lanka, and/or the technical assistance contractor followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work

- to conclusively determine that USAID/Sri Lanka, the Government of Sri Lanka, and/or the technical assistance contractor was not following a procedure or not complying with a legal requirement;
- to identify the cause and effect of the problems; and
- to make recommendations to correct the condition and cause of the problems.

Appendix I contains a complete discussion of the scope and methodology for this audit.

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## REPORT OF AUDIT FINDINGS

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### What is the progress of the project?

USAID/Sri Lanka, project evaluators, and the project's technical assistance contractor have all reported on project progress or achievements. For example:

- USAID/Sri Lanka's project implementation report for the quarter ending September 30, 1989, states: "The project is making very good progress towards achieving its goals and objectives through intensive research and facilitating technology transfer and seed to increase and sustain subsidiary field crops production on small farms".
- A May 1989 evaluation report stated: "There has been a significant improvement in seed production and distribution. ... In short, the seeds component of the project has moved forward in a more systematic manner than have the other components and became a lead factor in improving crop productively in this country (Sri Lanka)."

Notwithstanding these achievements, it is difficult to objectively measure the actual progress in accomplishing the project objectives because adequate quantifiable indicators (benchmarks, targets, and timeframes) have not been established on what was expected to accomplish various project objectives. For example, USAID/Sri Lanka indicated one objective over the project's life was to release seven new crop varieties to farmers. Although USAID/Sri Lanka reported as a measure of the project's progress the fact that 20 crops varieties were identified for release, no new varieties had been actually released. Since no interim targets and timeframes were established (e.g., releasing two new varieties every year) it is not possible to objectively determine if the identification of 20 new varieties for release represents expected progress at this stage of the project's life. Problems with the lack of adequate quantifiable indicators are discussed in more detail on pages 36 to 38.

While the lack of adequate indicators precludes an objective assessment of the project's progress, we did identify the following examples of progress—or delays in progress—in project implementation:

- The original project completion date was extended one year to August 31, 1993.
- The project design provided for 234 person-months of technical assistance effort that was to be provided by August 31, 1992. Current projections are that 353 person-months will be required and will run through August 31, 1993. The estimated A.I.D. cost for technical assistance increased from \$2.6 million to \$6.0 million.
- The projection for the number of participants sent for training is on schedule or has been exceeded (as of August 31, 1990): All 57 participants scheduled to be sent for long-term training have been sent. For short-term training, 408 person-months were achieved compared to only 352 person-months planned.
- Commodities valued at \$2.2 million should have been received by November 1988 compared to only \$668,000 actually procured as of August 31, 1990. The Government of Sri Lanka was in the process of approving additional procurements valued at \$1.1 million. A procurement plan has not been developed for the remaining obligations of \$500,000.
- The project originally had planned to construct 58 buildings by June 1989. However, only 12 of the planned buildings were completed as of August 31, 1990. The Government of Sri Lanka now expects that only 32 will be constructed under the project by August 31, 1993.

We believe that some of the problems discussed in this report have contributed to the delays in the project's implementation.

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### **Did USAID/Sri Lanka follow A.I.D. procedures to ensure the technical assistance contractor provided the required workplans and reports?**

Although the technical assistance contractor provided workplans and progress reports, USAID/Sri Lanka did not follow A.I.D. procedures to ensure these documents contained the required information.

The technical assistance contract was awarded by USAID/Sri Lanka in July 1985. The initial contract had an estimated completion date of August 31, 1990 and an estimated cost of \$2.6 million. The contract was amended to extend the completion date to August 31, 1991 and increase the estimated cost to \$3.7 million. At the time of our audit, USAID/Sri Lanka had solicited bids and was in the process of awarding a follow-on contract with the same contractor. This new contract will run through August 31, 1993 and cost an estimated \$2.3 million. Under the terms of both contracts, the contractor

serves as advisor to the Government of Sri Lanka's Department of Agriculture and provides technical, administrative, management, training and other relevant services as required to achieve the project objectives.

### **Technical Assistance Contractor's Workplans and Reporting Need to be Improved**

The technical assistance contractor is required, among other things, to prepare a life-of-project workplan (updated annually) setting out the strategy to meet project objectives and a report on the progress towards meeting this plan. Although the contractor was reporting extensively under this project, there were deficiencies with both the workplans and the progress reports because USAID/Sri Lanka officials did not ensure the adequacy of the workplans and reports. As a result, USAID/Sri Lanka could not objectively measure the progress of this project and assess the effectiveness of the technical assistance for which \$3.6 million had been spent.

#### **Recommendation No. 1: We recommend that USAID/Sri Lanka:**

- 1.1 require the technical assistance contractor to include in its annual workplans starting, completion, and interim target dates to measure the progress of project activities;**
- 1.2 require the technical assistance contractor to include in its quarterly progress reports its assessment as to whether project activities are progressing according to the agreed-upon workplan or are ahead or behind schedule for reasons to be specified in the report; and**
- 1.3 require project officers to document their review of the contractor's progress reports and notify the contractor in writing when the reports do not comply with reporting requirements stipulated in the contract or do not provide information needed by USAID/Sri Lanka and others to measure the contractor's performance and project progress.**

The contract for technical assistance requires the contractor to prepare a life-of-project workplan which is intended to spell out the contractor's responsibilities. The plan is to be updated every year and is to describe all project activities and to clearly set out, chronologically, the strategy to be employed in meeting project objectives. The contract also stipulated that each project activity described in the plan will be assigned a starting and completion date. As of August 31, 1990, \$3.6 million had been paid for technical assistance.

The life-of-project plan was prepared and updated annually. Although the last interim evaluation (completed in May 1989) concluded the workplans had become an effective instrument for project management, we found some deficiencies in the plans which

limited their effectiveness.

For example, although the plans described project activities and included start dates for most activities, the plans rarely included completion dates or interim target dates which could be used to assess the activity's progress. Thus, it is not possible to objectively assess the progress being made for project activities due to the lack of any target dates or indicators of progress. Examples of this problem are noted below:

- The 1987 workplan listed as one approach for soil and water management project activities: Review Department of Agriculture research plans and recommend priorities based on research elsewhere, specialist experience and constraints in Sri Lanka. The 1989 workplan listed an almost identical approach. Both plans identified the start date (1987) for this activity, but neither identified interim or completion dates making it impossible to assess the progress of this activity.
- The 1987 and 1989 workplans listed as another approach for soil and water management project activities: Promote research on methods of irrigation of subsidiary field crops on rice basins and evaluate the irrigation efficiency. Although a start date (1987) was listed in both workplans, the plans contain no interim or final target completion dates. Thus, it was not possible to assess whether this activity was progressing as planned.

The technical assistance contractor is also required to submit quarterly progress reports which include the contractor's assessment as to whether project activity is progressing according to the agreed-upon workplans with reasons for why it is ahead or behind schedule. Although the contractor was reporting extensively under this project (submitting monthly, quarterly, and annual reports), the reports did not include this assessment and we could not determine the progress of the project by reading the contractor's reports.

A.I.D. must use every reasonable safeguard to ensure that U.S. Government funds are spent efficiently and that the services paid for are effectively used. To fulfill these requirements, A.I.D. Handbook 3, Supplement A, stipulates that the A.I.D. project officers need to monitor contract implementation and ensure that the contractor's performance is evaluated. They should review each progress report submitted by the contractor for adequacy, particularly for discussions of progress toward planned targets and identification of actual or potential problem areas. The project officer should also bring any deficiencies in the reports (e.g., failure to measure progress toward identified targets) to the contractor's attention. These cases should be documented in the project file and, if appropriate, brought to the attention of mission management.

We found little evidence in USAID/Sri Lanka's project files indicating the contractor's progress reports had been reviewed.

The inadequate workplans and reporting by the technical assistance contractor made it difficult for USAID/Sri Lanka and the Government of Sri Lanka to effectively monitor the contractor's performance and project progress. Therefore, USAID/Sri Lanka needs to ensure the technical assistance contractor's workplans and progress reports contain information, such as starting, interim, and completion target dates for achieving the project objectives.

### Management Comments and Our Evaluation

USAID/Sri Lanka generally concurred with the finding and recommendations. In response to Recommendation Nos. 1.1 and 1.2, the technical assistance contractor was instructed to include in its workplans starting, completion, and interim target dates to measure progress of project activities and to include information in its quarterly progress reports assessing the progress of project activities and identifying reasons and suggested corrective actions for any delays.

Concerning Recommendation No. 1.3 that project officers be required to document their reviews of the technical assistance contractor's workplans and progress reports, USAID/Sri Lanka stated that in most cases the project officers reviewed and commented on contractor reports in draft form and, hence, there was no formal written response. However, USAID/Sri Lanka stated that in the future it would document when reports do not meet contract requirements.

Based on USAID/Sri Lanka's comments, Recommendation No. 1 is resolved and can be considered for closure after we receive copies of the technical assistance contractor's workplans and quarterly progress reports which meet the requirements of the contract or documentation showing that the USAID/Sri Lanka's project officer reported any deficiencies to the contractor and, if appropriate, brought them to the attention of USAID/Sri Lanka's management.

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**Did USAID/Sri Lanka follow A.I.D. procedures in (a) planning for participant training, (b) selecting participants, (c) monitoring long-term participants' performance to ensure satisfactory progress, and (d) ensuring that returned participants were assigned to work where they effectively use their training?**

USAID/Sri Lanka and the technical assistance contractor followed A.I.D. procedures for planning participant training and monitoring participants' performance to ensure satisfactory progress; but they did not always follow A.I.D. procedures for selection of candidates with respect to English language proficiency and medical certification

requirements nor ensure that the Government of Sri Lanka assigned participants to work where they effectively use their training.

We found that USAID/Sri Lanka and the technical assistance contractor established realistic benchmarks (targets and timeframes) to measure progress in sending participants for overseas training. These benchmarks were being achieved or exceeded as of August 31, 1990: All 57 participants scheduled to be sent for long-term training were sent and 408 person-months versus a planned level of 352 person-months were achieved for short-term training. USAID/Sri Lanka or its technical assistance contractor also obtained periodic reports to determine the progress of the long-term participants.

However, our review of a judgmental sample of 20 participants' files disclosed problems in the selection and the follow-up procedures intended to ensure that returned participants were assigned to work where they effectively used their training. These issues are discussed below.

### **Minimum English Proficiency Requirements Need to be Enforced**

A.I.D. regulations require that participants demonstrate adequate proficiency in English if they are to be trained in courses conducted in English. Participants, however, have in some instances been sent for training without obtaining the required English scores because the requirements were not enforced. Without adequate language skills, the expected benefits from training may not be derived, and as a result, A.I.D. funds may not be effectively and efficiently spent.

#### **Recommendation No. 2: We recommend that USAID/Sri Lanka:**

- 2.1 establish procedures to require English proficiency tests for all appropriate participants receiving academic and technical training;**
- 2.2 ensure only those participant training candidates who achieve the required English language proficiency are allowed to attend training unless adequate justification is documented that the required proficiency is not needed; and**
- 2.3 notify the Government of Sri Lanka that only candidates meeting the English proficiency requirements will be eligible for training unless proper justification is documented.**

A.I.D. Handbook 10, Chapter 12, states:

Missions are to ensure that all participants, except those accompanied by an official interpreter and those whose programs are not conducted in English, have obtained the minimum required English proficiency scores

(on either one of the two approved tests) prior to departure.

Although Supplement 12A of A.I.D. Handbook 10 states that participants whose English proficiency is below the minimum should not be sent for training until they take intensive English language training and obtain the required minimum scores, it also states that flexibility is required to meet program needs. For example, although English language ability is always to be considered, four other considerations include: "... demands made by the participant's proposed technical training, the facility available for remedial language study, the pressure of time, and other important program considerations".

In the case of this project, the technical assistance contractor is responsible for administering the required tests under the terms of its contract. These scores (if any) are then noted on the Project Implementation Order/Participants (PIO/P) which are then sent to USAID/Sri Lanka for approval.

USAID/Sri Lanka and the technical assistance contractor allowed certain participants to attend training without demonstrating the required minimum levels of English proficiency. For example, in our sample of 20 participants, everyone had attended courses conducted in English and were not accompanied by an interpreter. However, only the 9 participants who went to the United States for training had received a passing score on one of the two acceptable tests, while the other 11 participants who went to third countries did not take the required test.

USAID/Sri Lanka and the technical assistance contractor officials said that the English examination requirements were not always enforced because they felt that the standard of English among the participants was generally good. Also, the Mission Order for participant training requires that participants should sit for English proficiency tests only "if required by academic institution". A USAID/Sri Lanka official contended that different courses required different levels of English competency and, therefore, applying one standard for every participant is not appropriate.

One could raise the question: Is there any definite relationship between English proficiency and the benefits derived from training? According to A.I.D. Handbook 10, Supplement 12A, such a relationship does exist and the English language proficiency requirements contained in the Handbook were derived from linguistic research and program experience.

Our interview with one participant who did not take the required test but was sent to Israel for a two-month technical course illustrates why the English proficiency requirement should be enforced. Although we could not evaluate the participant's performance because no grades were given, our interview with this participant required an interpreter because the participant could not converse in English. We feel it is unlikely a participant who cannot converse in English would be able to adequately comprehend a technical course taught in English.

Furthermore, the need to ensure the English proficiency of potential participants may become greater in the future. The May 1989 evaluation report on the project stated:

Candidates for training will probably find it increasingly difficult to pass the TOEFL (one of the required English tests) at the required level ... (because they are) increasingly likely to come from remote stations and their English competencies will probably be deficient.

In our opinion, USAID/Sri Lanka should comply with A.I.D. requirements to test all participants prior to sending them for overseas training (unless they are accompanied by official interpreters or if the course is not conducted in English). Upon receipt of the test scores, their results should be analyzed along with other considerations (e.g., pressure of time) to determine if any exceptions should be made. Such exceptions should be fully justified and documented for each participant. USAID/Sri Lanka should also inform the Government of Sri Lanka that only candidates meeting the English proficiency requirements will be eligible for training unless adequate justification is documented.

### **Medical Examinations Need to be Performed**

A.I.D. regulations require that participants undergo the prescribed medical test and must be certified as medically fit for training. As medical tests were not done or copies of medical certificates were not in USAID/Sri Lanka's or the technical assistance contractor's files for participants sent for short-term training in third countries, we were unable to determine if the participants were medically fit for training. These problems occurred because the technical assistance contractor did not comply with contract requirements and USAID/Sri Lanka did not have procedures to ensure required medical examinations were performed and related certifications maintained. By not performing the appropriate medical test and having the medical certificates on file, A.I.D. may be placed under the unnecessary risk of spending excessive amounts on medical costs and not being able to substantiate that the required medical examinations were taken and passed by participants.

**Recommendation 3:** We recommend that USAID/Sri Lanka develop procedures to ensure that the appropriate medical examinations are performed for all short-term participants before they leave the country and that certifications or the required medical waivers are maintained in its files.

A.I.D. Handbook 10, Chapter 13, states that missions are responsible for ensuring that all A.I.D.-sponsored participants undergo prescribed medical examination and that the medical certification is on file prior to the participant leaving their country for overseas training. The participant should be certified as medically fit for training by the examining physician. If the mission still intends to send a participant despite having failed this medical examination, medical waivers must be approved by the Mission Director or his designees.

In the case of this project, the technical assistance contractor is responsible for administering the required medical examination under the terms of its contract.

In our review of 20 participants, 11 participants had taken and passed the required medical test. For the nine participants sent for short-term training in third countries, there was no evidence in the files that any medical examination was done and the technical assistance contractor was unsure as to whether such tests were done. Through our interviews with these participants and other Government of Sri Lanka officials, we learned that at least for five of these nine cases, the appropriate medical test was never given.

According to the technical assistance contractor, one of the reasons why a medical examination was not always done was because it was an administratively tiresome procedure, especially for participants who are only going overseas for a short-term course. Furthermore, the contractor believed that A.I.D. was not liable for any medical costs because the contractor always purchased medical insurance for all participants. However, the medical insurance contained the following clause:

Sickness due to pre-existing conditions will be covered after the Covered Person's insurance has been in force for more than three years.

Since most participants will not be covered for more than three years, A.I.D. would be liable for pre-existing conditions—conditions which could only be detected if a proper medical examination was done.

Another reason given by the contractor for not requiring medical tests is that there has been no record of excessive medical costs incurred. Although we did not detect excessive medical costs paid by this project's funds, the failure to have the required medical tests performed creates unnecessary risks of potential claims against A.I.D. USAID/Sri Lanka officials were not aware that medical examinations were not being given to all participants.

Without performing the appropriate medical tests on all participants, A.I.D. will not be sure if all its participants were medically fit prior to training. As a result, A.I.D. may be placed under unnecessary risk of spending excessive amounts on medical costs. Also, without the medical certificates on file, USAID/Sri Lanka could not substantiate if the technical assistance contractor had discharged its responsibilities in ensuring that all A.I.D. participants have undergone the prescribed medical examinations. Therefore, USAID/Sri Lanka should ensure that every participant undergoes the prescribed medical examination and that medical certificates are maintained in participant's files.

## **A Follow-up System to Monitor Returned Participants Needs to be Implemented**

It is A.I.D. policy that all feasible steps be taken to ensure that trainees return to work in positions where their training is used effectively. USAID/Sri Lanka did not implement a system to monitor returned participants and ensure that trainees work in positions where their training could be used because the need for such a system had not been recognized. Therefore, there is no way of knowing whether all participants are working in an area where they can use their training and consequently whether A.I.D. funds may not have been effectively spent.

**Recommendation No. 4: We recommend that USAID/Sri Lanka establish follow-up procedures on returned participants to assure they are given positions where their training can be effectively used for the required period.**

A.I.D. Handbook 10, Chapter 35, states that it is A.I.D. policy that every A.I.D. mission, in collaboration with the host country, provide general follow-up activities on returned A.I.D. participants and maintain up-to-date records for a minimum of three years on participants who were trained for periods of three months or longer. It is also A.I.D. policy (Handbook 10, Supplement 1A) that all feasible steps be taken to ensure that A.I.D.-sponsored trainees return to work in positions where their training is used effectively.

The project agreement states that the Government of Sri Lanka will ensure:

... employment in a position relevant to training received under the Project will be available for each participant immediately upon completion of his or her training and for a period thereafter of not less than one year, or not less than three times the length of the training, whichever is longer; and that no action will be taken by the Government of Sri Lanka to waive or relax any post-training obligation of any participant without prior A.I.D. approval.

Furthermore, the project agreement provides that A.I.D. may require a refund from the Government of Sri Lanka if A.I.D.-funded resources are not effectively used.

**Because USAID/Sri Lanka does not have a follow-up program to keep track of participants when they return from training, they do not know if returned participants are working in an area where they effectively use the training they received. Faced with this, we interviewed 16 of the 17 returned participants in our sample and although 14 interviewees said they were effectively using their training, two were not as illustrated below:**

- An Economic Assistant was sent to Israel for about two months on a course in

"Micro Planning and New Settlements Area." According to this participant, the course was mainly done to benefit the new settlements in the Mahaweli region in Sri Lanka but, according to this participant, he has not used the skills acquired from his training since his return in August 1989. (This training cost about \$4,700).

- An Agricultural Economist was sent to the United States for a year to obtain a masters degree in agricultural economics. According to this participant, he has had little opportunity to use the skills he acquired in his training since his return in September 1989. He added that about 80 percent of his time is spent on administrative-type work. He said that in order to effectively utilize his skills, he should be conducting research programs that currently only take up to 20 percent of his time. (This training cost \$20,000).

USAID/Sri Lanka officials said they did not implement a formal follow-up system because the need for one had not been recognized. However, without a follow-up program, USAID/Sri Lanka will not be aware whether all returning participants were placed in positions where they use the training for which A.I.D. funds were spent.

#### Management Comments and Our Evaluation

USAID/Sri Lanka generally concurred with the findings and recommendations and instructed the technical assistance contractor to (1) ensure all participants achieve required English proficiency scores on standard exams, or document justification of why such scores are not needed, (2) ensure that medical certifications or necessary waivers are on file, and (3) provide follow-up monitoring on returned participants to include such information as the returned participant's current work assignment, current responsibilities, and assessment of whether training is relevant to current work assignments.

Based on USAID/Sri Lanka's response, Recommendation Nos. 2, 3, and 4 are closed.

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**Did USAID/Sri Lanka and the Government of Sri Lanka follow A.I.D. procedures in (a) planning for commodity procurements, (b) awarding contracts for commodities, (c) providing an adequate accounting for the receipt of commodities, and (d) ensuring the timely and effective use of commodities?**

USAID/Sri Lanka and the Government of Sri Lanka generally followed A.I.D. procedures for planning commodity procurements, awarding contracts for commodities,

and providing an adequate accounting for the receipt of commodities purchased in-country. However, these parties did not effectively implement A.I.D. procedures to ensure timely commodity procurements and the timely and effective use of commodities.

As of August 31, 1990, USAID/Sri Lanka obligated and expended \$2.2 million and \$668,000, respectively, for commodities. The procurements (mostly for computers, vehicles, and laboratory research equipment) were made by the Government's Department of Agriculture or its A.I.D.-funded procurement service agent. An analysis of financial data for purchases by these parties (as of August 31, 1990) is shown below:

<u>Party</u>	<u>Obligation</u>	<u>Expended</u>	<u>Tenders in-process</u>	<u>Uncommitted</u>
Department of Agriculture	\$1,693,828	\$622,636	\$611,285	\$459,907
Procurement Service Agent	<u>581,172</u>	<u>44,984</u>	<u>478,033</u>	<u>58,155</u>
	<u>\$2,275,000</u>	<u>\$667,620</u>	<u>\$1,089,318</u>	<u>\$518,062</u>

We found that USAID/Sri Lanka and the Government of Sri Lanka had adequate controls to ensure contracts were competitively awarded and, for the items tested, had adequate controls over receipt of commodities purchased in-country. However, these parties were not successful in resolving problems causing delays in commodity procurements, did not ensure adequate systems were in place for receiving commodities purchased offshore, and did not implement systems to ensure that commodities are used effectively and in timely manner. Problems with commodity management are discussed below.

#### **Need to Take Stronger Actions to Resolve Procurement Delays**

Contrary to A.I.D.'s policy and the project agreement, the Government of Sri Lanka did not procure project commodities in an efficient and timely manner. The procurement delays occurred because of cumbersome Government procedures for approving and awarding contracts. And, despite close monitoring and repeated follow-up by USAID/Sri Lanka, actions were not successful to resolve continuing problems causing these delays—delays which resulted in increased prices of commodities and limited the effectiveness of some project activities.

#### **Recommendation No. 5: We recommend that USAID/Sri Lanka:**

- 5.1 establish new target dates for the \$1,089,318 of commodity procurements in process which can be used to assess the Government of Sri Lanka's progress in completing the procurements and, if the Government does not adhere to**

**these dates, take appropriate action such as canceling the remaining procurements and deobligating/reprogramming available funds; and**

- 5.2 revise the project's commodity procurement plan and determine whether the \$518,062 in uncommitted funds is needed and can be effectively utilized for equipment purchases and, if not, deobligate/reprogram these funds.**

The project agreement requires that the Government of Sri Lanka carry out project activities (including the procurement of commodities) with due diligence and efficiency and in conformity with sound technical, financial, and management practices. The Government was not fulfilling its commodity procurement responsibilities efficiently and effectively.

Although the original project implementation plan estimated that all project commodities would be received by the end of the fifth year (November 1988), only \$668,000 (29 percent) of the \$2.3 million obligated for project commodities has been spent and procurements for \$1.1 million were in process as of August 31, 1990. While internal security problems in the country caused some delays, **the Government's extensive review and approval process accounted for most delays.** For example:

- In January 1987, the Department of Agriculture authorized the procurement service agent to solicit bids on 34 agriculture equipment items estimated to cost \$157,000. The agent submitted the bid information along with its recommendations for awards to the Department in July 1987. Seven months later (February 1988), the Department approved procurement of 23 items (11 items were dropped from the procurement due to price increases) and in March 1988 the agent placed orders for the items. However, because of price increases and the period of the bid had expired, suppliers for 12 of the 23 items withdrew their offers. In November 1988, the agent submitted new bid information and its recommendations for the 12 items. Six months later (May 1989), the Department approved awards for the 12 items. Suppliers bids had again expired and the agent had to request the Department to approve a 10 percent price increase for the items. In August 1989, the agent placed orders for these items. In summary, this procurement spanned a period of two and a half years.
- Seed processing equipment is being procured directly by the Department of Agriculture. When we visited the Department of Agriculture on June 27, 1990, we were told that the Department's tender board had reviewed the bids and made their recommendations and that the tender documents were being sent to a cabinet level tender board for approval. The Department officials believed there would be no problem meeting the July 27, 1990 deadline when the bids expired. However, a USAID/Sri Lanka project official told us on August 20, 1990 that the Department was still awaiting cabinet tender board approval—almost one month after the bids expired.

Although USAID/Sri Lanka has made numerous attempts to encourage the Department of Agriculture to expedite their procurement review process, there has been little progress. For example,

- USAID/Sri Lanka officials met with the Government of Sri Lanka's Secretary for Agriculture on March 7, 1990 and recommended a time table for the procurement of laboratory equipment. As of August 15, 1990, however, the Department was already one month behind USAID/Sri Lanka's proposed schedule in getting various approvals and would not be able to meet the target date of having the commodities shipped by December 15, 1990.
- In an attempt to expedite the Department's review of the U.S. procurement service agent's actions, USAID/Sri Lanka had a clause included in the agent's contract with the Department requiring the Department to notify the agent within forty days from receiving information either approving or disapproving the agent's recommendation. In the absence of a response, the agent was authorized to proceed with the procurement. However, the clause did not work because the Department would notify the agent within the forty-day period that they needed additional time to review the agent's recommendations. The agent, therefore, could not proceed with the procurement.

USAID/Sri Lanka officials said they considered switching the off-shore procurements to a direct-A.I.D. contract, but they believed the Government of Sri Lanka would be reluctant to switch because A.I.D. loan funds were involved.

Besides resulting in the higher prices for commodities, delays in acquiring commodities have had other adverse effects. For example:

- The three research centers we visited all lacked equipment. Research officers at these centers indicated their research activities were hampered by the lack of supplies and equipment. Several of these officers received project sponsored training (both long and short-term training) and because of the lack of equipment could not fully utilize their training.
- A seed processing building which is part of a complex of buildings completed in August 1989 at a cost of \$21,000, could not be used because the Department has not procured the seed processing equipment needed for the facility. At the time of our audit, the Department was in the process of evaluating bids on this procurement. The equipment was originally scheduled to be procured by November 1988.

In addition to the \$1.1 million in commodity procurements in process, the project has \$518,062 obligated but uncommitted for commodities. USAID/Sri Lanka has not revised its commodity procurement plan to show how the \$518,062 will be used.

In view of long-standing delays and problems experienced with the project's commodity procurement, we believe USAID/Sri Lanka needs to establish key target dates for the \$1.1 million of procurements in process and closely monitor the Government's adherence to these dates. If the Government does not meet established target dates, we believe the procurements should be canceled and available funds deobligated or reprogrammed for other project purposes. Also, USAID/Sri Lanka needs to review the commodity procurement plan to determine if the \$518,062 in uncommitted funds is needed and can be used efficiently and effectively for commodities prior to project completion.

### **Need to Ensure Commodities Are Properly Inspected and Distributed**

Some A.I.D.-funded commodities were not being adequately inspected upon arrival in Sri Lanka nor were commodities distributed to project sites on a timely basis. This happened because USAID/Sri Lanka did not effectively monitor the Government's commodity arrival and disposition systems. As a result, USAID/Sri Lanka does not have adequate assurance on whether A.I.D.-funded commodities arrive in usable condition and are distributed in a timely manner or take appropriate actions to correct any deficiencies.

**Recommendation No. 6:** We recommend USAID/Sri Lanka evaluate the Government of Sri Lanka's commodity arrival and disposition system as required by A.I.D. Handbook 15 and ensure the Government's inspection and distribution of project commodities is closely monitored.

USAID/Sri Lanka, according to A.I.D. Handbook 15, Chapter 10, is responsible for maintaining a current description, approved by the mission controller, of the Government of Sri Lanka's Department of Agriculture's commodity arrival and disposition system(s), the mission's evaluation of the system(s), and the monitoring procedures established by the mission. USAID/Sri Lanka issued a mission order in June 1989 which, among other things, established procedures for monitoring the Government's commodity arrival and accounting systems. These procedures pointed out that although the Government of Sri Lanka is primarily responsible for the arrival and disposition of commodities, the USAID/Sri Lanka project officer is responsible for knowing whether or not the Government's implementing agency completes its required tasks.

USAID/Sri Lanka hired a local accounting firm in late 1989 to review various systems and procedures used by the Department of Agriculture for this project including the Department's commodity arrival and disposition systems. While the accounting firm provided a detailed description of the systems used by the Department, the firm did not undertake an assessment of the systems. As discussed below, we found serious deficiencies with the Department's inspection and disposition systems for project commodities.

The Government's Department of Agriculture is responsible for the inspection of

commodity arrivals. However, the Department was not taking adequate steps for inspecting project commodities upon arrival in Sri Lanka. For example, we noted the Department's inspections had identified missing and damaged items worth about \$1,700 from shipments (valued at about \$28,000) which had been received at the time of our audit. However, the Department was unable to recover the amount of the damaged or missing items because it had not conducted its inspections and filed its claim as required by the insurance agreement.

Although the value of commodities missing and damaged is small to date, actions must be taken to ensure the adequacy of the Department's inspection system since \$478,033 in commodities from off-shore sources are in the process of being awarded. Unless the inspection system complies with the insurance agreement terms, damaged and missing commodities cannot be replaced or compensated for and the cost of the insurance will be wasted.

The Department of Agriculture was also not distributing project commodities to project sites on a timely basis. Our review of seven commodity shipments (costing about \$412,000), which arrived during the period March 1987 to September 1989, disclosed the commodities in these shipments remained in storage for periods ranging from 4 days to 299 days. We found numerous examples of commodities remaining in the Department's warehouse for excessive periods of time, as evidenced by the following:

- A shipment of 26 agricultural machinery items, costing \$33,600, which arrived between September 23 and December 3, 1987, spent an average of 299 days (ranging from 206 days to 994 days) in the warehouse. This shipment included a disk harrow, costing \$1,400, which was still in the warehouse on August 30, 1990 and had been in the warehouse since December 3, 1987—a period of over two and one-half years. This equipment was scheduled to be sent to a project site located in an area experiencing civil unrest. However, instead of sending the item to another project location, the Department continued to store it.
- A shipment of 7 motorcycles, costing about \$8,000, which arrived in September 1989, remained in the warehouse an average of 157 days (ranging from 71 to 246 days).

### **Need to Strengthen Controls Over Commodity Utilization**

Controls were not adequate to assure project commodities were effectively used as required by the Foreign Assistance Act and the project agreement. This problem occurred because the Government of Sri Lanka was not submitting reports on equipment utilization and USAID/Sri Lanka was not adequately monitoring the use of commodities. The lack of adequate controls resulted in some equipment not being used effectively or properly.

**Recommendation No. 7: We recommend that USAID/Sri Lanka:**

- 7.1** require the Government of Sri Lanka to submit an annual equipment utilization report showing the location, condition, and use of A.I.D.-funded project equipment;
- 7.2** improve the monitoring of equipment utilization by (a) requiring project officers to maintain a central file of trip reports reporting on equipment use and (b) recording on the mission's inventory of project equipment when equipment was inspected, the condition at the time of inspection, and any equipment problems for follow-up actions; and
- 7.3** request the Regional Legal Advisor to determine the legality of the method being considered for seeking appropriate restitution (amounting to approximately \$78,000) for the unauthorized use of 15 vehicles.

The Foreign Assistance Act (Section 101) and the project agreement require that A.I.D.-funded commodities be effectively used for the purpose for which the assistance was made available. To ensure compliance with these requirements, A.I.D. Handbook 15, Chapter 10, states that A.I.D. project officers have the ultimate responsibility for ensuring that A.I.D.-funded commodities are effectively used for project purposes. It further states that

- the project officers and their host country counterparts will continuously monitor their projects and give periodic commodity end-use reports to the Mission Director, and
- recommendations on corrective action that must be initiated should at once be brought to the attention of appropriate officials (USAID/Sri Lanka and host country) to assure appropriate action is taken.

We previously reported (Audit Report No. 5-383-88-5, dated May 27, 1988) that USAID/Sri Lanka did not adequately monitor A.I.D.-funded equipment and consequently did not know that items were not effectively used. In response to that report, USAID/Sri Lanka requested the Government of Sri Lanka in June 1988 to provide annual reports (beginning in June 1989) on utilization of A.I.D.-funded equipment. The reports were to identify the location and condition of the equipment. However, only one report was submitted (in October 1989) identifying equipment costing over \$5,000 and where it was located, but the report did not include information on the condition of the equipment.

Our audit revealed that some equipment was not being properly utilized or used in accordance with the project agreement. For example:

- At one project site, we found that a tractor trailer, costing \$1,025, was unusable

because all the wood planks making the bed had rotted away; a power sprayer, costing \$217, had never been used; and three disk harrows, costing \$4,178, which were supposed to be at this location had never been received.

Six project vehicles (costing \$56,000) were taken over by the Government of Sri Lanka military and police for security work. USAID/Sri Lanka only became aware of the diversion in October 1989, even though one vehicle was taken over in July 1987. Furthermore, the Government did not disclose the diversion in its October 1989 equipment report.

USAID/Sri Lanka's mission order on commodities states that the project officer should monitor commodity use during field visits to ensure the commodities are used for appropriate purposes and maintained in working order. Although project officers were visiting project sites and reporting on equipment use, we found that the reporting was not systematic nor was there a system for following-up on equipment utilization problems identified during the visits. Also, project officers' trip reports were filed in numerous files and could not be easily retrieved.

To determine the extent of USAID/Sri Lanka's monitoring of equipment utilization, we requested copies of all project officers' trip reports identifying equipment use under this project for the period April 1, 1989 through April 30, 1990. USAID/Sri Lanka officials said they do not keep a control file on records noting if or when commodities are inspected during site visits and could only identify seven trip reports and these were made from January 18, 1990 through April 19, 1990.

These seven reports indicated that for \$325,000 worth of equipment that was supposed to be at the sites visited, only 57 percent was found to be in good condition and used. Of the remaining 43 percent, 28 percent was not available for inspection, 10 percent had no comment on its condition or use, and 5 percent was not being used. Although there may be potential problems with the 43 percent of the equipment for which the condition and use was not verified, this information was not identified for follow-up actions during subsequent field visits.

Better USAID/Sri Lanka monitoring and more accurate and timely equipment utilization reporting by the Department of Agriculture would have identified the diversion of project vehicles for improper use. Although eight project vehicles were diverted between July 1987 and October 1989, USAID/Sri Lanka officials did not become aware of the diversion until October 1989.

In total, 15 vehicles were diverted to unauthorized use: 13 vehicles were diverted from three different USAID/Sri Lanka projects (including six from the Diversified Agricultural Research Project) for internal security use by the Government of Sri Lanka's army and police and two additional Diversified Agriculture Research Project vehicles were diverted to the Government's Ministry of Agriculture for nonproject purposes.

Although all these vehicles have been returned to their respective projects, USAID/Sri Lanka needs to take additional actions to recover the costs associated with the misuse of the vehicles.

In lieu of requesting the Government of Sri Lanka to pay for the unauthorized use of the vehicles, USAID/Sri Lanka requested the Government to provide additional project contribution for each affected project in an amount equal to the rental cost (totaling \$34,944) of the vehicles for the time of unauthorized use. The Government advised USAID/Sri Lanka in May 1990 that it would for two projects (including the Diversified Agricultural Research Project) offset the claim amounts against sums already contributed as host country contributions and, for the third project, make available additional contributions equivalent to the loss claim. We do not believe these actions adequately compensate A.I.D. for the Government of Sri Lanka's unauthorized vehicle use for the following reasons:

- Section 660 of the Foreign Assistance Act specifically prohibits the use of A.I.D. funds to provide financial support for police or other law enforcement forces for any foreign government. Thus, the diversion of 13 vehicles for internal security use by the Government's army and police violated U.S. laws and the Government of Sri Lanka should be required to compensate A.I.D. for the vehicle misuse and should not be allowed to offset the claim against its contributions to the affected projects.
- USAID/Sri Lanka incorrectly computed the compensation claim. It used the wrong diversion date for one vehicle and did not include two Diversified Agricultural Research project vehicles diverted to the Government's Ministry of Agriculture which were used for nonproject related purposes. Based on these adjustments, we estimate the amount of claim as \$77,984, not \$34,944 as computed by USAID/Sri Lanka.

To better ensure project equipment is effectively used in the future, USAID/Sri Lanka should assure the Government of Sri Lanka submits the required reports on equipment utilization and improve its own monitoring systems in this area. USAID/Sri Lanka should also have the Regional Legal Advisor review the legality of the method it is considering for seeking compensation from the Government of Sri Lanka for the unauthorized use of project vehicles.

### **Management Comments and Our Evaluation**

USAID/Sri Lanka generally concurred with the findings and recommendations. Concerning Recommendation Nos. 5.1 and 5.2, USAID/Sri Lanka stated that a procurement plan for the remainder of the project is being prepared and is expected to be completed in February 1991. This recommendation is considered resolved and can be considered for closure once the procurement plan, which includes key target dates for

assessing the Government of Sri Lanka's progress towards meeting the plan and taking appropriate action if the Government is not adhering to the new dates, is completed and a copy submitted for our review.

Concerning Recommendation No. 6, USAID/Sri Lanka stated the project paper's administrative analysis section did briefly evaluate the Government of Sri Lanka's commodity arrival and distribution system. It acknowledged, however, the need to ensure that distribution delays are not repeated and stated it had requested the Government to take action on the disk harrow equipment discussed in our report and ensure that commodity distribution is expedited.

USAID/Sri Lanka's actions are not totally responsive to Recommendation No. 6 and the recommendation is considered **unresolved**. We continue to believe the Government's commodity arrival and distribution system needs to be evaluated as required by A.I.D. Handbook 15. Although the original project paper's administrative analysis section did indicate some sort of evaluation was made, we found no evidence documenting this evaluation. Further, over six years have passed since the date of the project paper, and we believe a thorough evaluation of the Government's commodity arrival and distribution system is warranted based on the problems with the system discussed in this report. Further, as we recommended, USAID/Sri Lanka needs to develop and implement procedures to monitor the Government's inspection and distribution of project commodities.

Concerning Recommendation No. 7.1, USAID/Sri Lanka stated it requested the Government's Department of Agriculture to submit an annual equipment utilization report. This recommendation is resolved and can be closed when we are provided a copy of the Department's utilization report.

In response to Recommendation No. 7.2, USAID/Sri Lanka agreed that it can improve implementation of its mission order dealing with monitoring commodity utilization by spot checking equipment utilization and requiring project officers to maintain a central file of trip reports. USAID/Sri Lanka noted that it does maintain a system for tracking commodity procurements and that it planned to strengthen this system to include end-use monitoring. The recommendation is resolved and can be closed when USAID/Sri Lanka fully implements the recommendation by requiring project officers to maintain a central file of trip reports and provides documentation that it has modified its system for tracking commodity procurements to include evidence of end-use monitoring.

Concerning Recommendation No. 7.3, USAID/Sri Lanka stated that while it believed it is fair to accept the method adopted for seeking payment for the unauthorized use of project vehicles, it is referring the issue to the Regional Legal Advisor for resolution. The recommendation is resolved and can be closed once the Regional Legal Advisor makes a determination on the issue.

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**Did USAID/Sri Lanka and the Government of Sri Lanka follow A.I.D. procedures in obtaining (a) qualified and eligible construction contractors at a fair price; and (b) timely, effective, and efficient construction services?**

While the construction contracts awarded and work completed to date complied with A.I.D. regulations, the construction phase of the project was not being carried out in a timely, effective, and efficient manner.

USAID obligated \$1.0 million for facilities construction. The construction is being managed by the Government's Department of Agriculture. We inspected all 12 buildings completed to date and found no visible signs of construction defects. Also, project staff using the buildings were satisfied with the quality of construction. With the exception of one building, all buildings were being used—the idle building could not be used because needed equipment had not been procured (see previous audit finding).

The project construction phase, however, has not proceeded in a timely, effective, and efficient manner. Although it was originally planned that all construction would be completed by June 1989, as of August 31, 1990, only 2 out of 10 sites and 12 out of 58 buildings were completed. Although USAID/Sri Lanka has closely monitored construction progress and made numerous attempts to resolve problems hindering construction progress, stronger actions are needed.

**Project Construction Is Behind Schedule**

The Government's Department of Agriculture has not efficiently carried out the project's construction activities with sound management practices, as required by the project agreement. Continued efforts by USAID/Sri Lanka to ensure construction activities progressed as planned have not succeeded. As a result, facilities have not been constructed as planned and escalating construction costs brought about by the Government's bureaucratic delays will probably result in a reduced number of facilities that can be constructed with available resources.

**Recommendation No. 8:** We recommend that USAID/Sri Lanka assess the progress made by the Department of Agriculture in implementing the revised construction schedule and take appropriate corrective action such as deobligate/reprogram any unexpended funds obligated for construction if the Department has not complied with or made adequate progress on the revised schedule by an appropriate date (e.g., March 31, 1991).

In signing the project agreement, the Government of Sri Lanka agreed, as a standard project covenant, to carry out the project with due diligence and efficiency and in conformity with sound technical, financial, and management practices. Internal security

problems contributed to some construction delays, but **the major cause for delays has been the inefficient and ineffective Government of Sri Lanka's approval and management of construction activities.** For example:

- The Department of Agriculture took from January 1985 to April 1986 (15 months) to select the architect/engineering contractor. Since the architect/engineering contractor is a critical step in implementing construction activities, the delay in selecting this contractor also delayed awarding the actual construction contracts. The project paper anticipated this process would only take six months.
- The Department decided to relocate building sites and revised the buildings list contained in the project paper which resulted in final construction plans not being ready until January 1987—almost 2 1/2 years after the project began. The project paper anticipated this phase would only take one year and would be completed at the end of the first project year (August 1985).
- The Department was slow in processing tender documents and obtaining formal written Cabinet approval for final contract awards. This resulted in some contract award approvals being received after the bid period had lapsed causing the Department to ask for new bids.
- The Department did not include provisions in its construction contracts to allow contractors to adjust contract prices for rising construction costs (price escalation clauses). This resulted in three out of four construction contractors to either default or refuse to sign their contracts.

As a result of Government's failure to adequately manage construction activities, **few of the planned facilities have been constructed or renovated as planned—six years after the project started.** For example, although all construction was originally planned to be completed by June 1989, as of June 30, 1990, construction was not even started at 7 of 10 sites and was abandoned at one site. Thus, out of \$1.0 million obligated for construction-related activities, only \$145,000 has been spent as of August 31, 1990, leaving unliquidated obligations amounting to \$855,000

Construction costs have been rapidly escalating while the construction process has been delayed. As a result, the original number of facilities planned to be constructed or renovated will have to be reduced. The project paper planned for 84 buildings to be constructed/renovated at 12 sites. This plan was revised to 58 buildings at 10 sites when construction started in 1987. At the time of our audit, the Department had just completed new cost estimates and, because of escalated construction costs, anticipated reducing construction to 32 buildings at 10 sites.

USAID/Sri Lanka has made numerous efforts to identify and resolve Government

management problems hindering construction progress. As far back as October 1988, for example, USAID/Sri Lanka was aware of the construction delays and was discussing corrective actions with Department officials. In a letter to the Department's project manager, USAID/Sri Lanka listed problems with each construction activity on-going at that time and recommended the Department take immediate action to resolve these problems. In March 1989, USAID/Sri Lanka requested that the Director of Agriculture intervene to help solve problems of slow approvals by the Government's Tender Board.

In March 1990, USAID/Sri Lanka reached agreement with the Department of Agriculture on a revised schedule for re-tendering and awarding new contracts to complete the remaining project construction. Under the revised schedule, construction is expected to begin in October 1990 and be completed by October 1991.

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*With only three years remaining for this project..., we believe the project is rapidly reaching a point where a decision must be made as to whether the Government of Sri Lanka is committed and capable of carrying out the project's construction activities.*

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Despite USAID/Sri Lanka's efforts to identify and resolve construction delays, such delays continue and there are serious doubts as to whether the Department can or will adhere to the revised schedule. For example, the revised schedule calls for the Department to have completed revised costs estimates and obtained USAID/Sri Lanka's approval by June 15, 1990. The Department, however, did not complete its revised estimates until August 2, 1990 and, as of August 29, 1990, these estimates were still being reviewed within the Government and had not been provided to USAID/Sri Lanka. Thus, at the end of our field work (August 31, 1990), the Department was already more than two months behind the agreed upon revised schedule.

With only three years remaining for this project and given the past problems experienced with construction activities, we believe the project is rapidly reaching a point where a decision must be made as to whether the Government of Sri Lanka is committed and capable of carrying out the project's construction activities. Continued delays in implementing construction projects only serve to drive the cost of this component upward.

#### **Changes Made to A.I.D.'s Share of Project Construction Costs Need to be Reconsidered**

USAID/Sri Lanka and the Government of Sri Lanka agreed to use the fixed amount reimbursement method of funding for project construction. However, USAID/Sri Lanka may have inappropriately rescinded the established reimbursement amounts which will result in relieving the Government of its commitment to build 58 facilities and increase A.I.D. costs by about \$343,000 for the remaining construction work.

A.I.D. costs by about \$343,000 for the remaining construction work.

**Recommendation No. 9: We recommend that USAID/Sri Lanka, in coordination with the respective A.I.D. Regional Legal Advisor, ascertain the propriety of rescinding the originally agreed upon reimbursement amounts and increasing these amounts for specific construction activities.**

A.I.D. Handbook 3, Appendix 3J, prescribes criteria for using the fixed amount reimbursement (FAR) method for funding project activities. The criteria specify that:

- the amount reimbursed for each output is fixed in advance based upon reasonable cost estimates,
- A.I.D. and the host government accept the risk that A.I.D. payments will not be increased or reduced per output if there are unforeseen cost increases or reductions, and
- USAID/Sri Lanka either through its own staff or through contract provides for periodic inspections of the project as well as certification that the outputs have been completed in accordance with plans and specifications.

USAID/Sri Lanka and the Government of Sri Lanka agreed (in October 1985) to use the FAR method for funding project construction, and from May 1987 through October 1988 USAID/Sri Lanka issued a series of project implementation letters which established that A.I.D. would reimburse the Government a total of \$783,000 for the construction of 58 buildings at 10 sites. The reimbursements were based on 75 percent of the estimated cost of each building.

Only 12 buildings at two sites have been completed for which USAID/Sri Lanka reimbursed the Government a total of \$115,000 based on the predetermined amounts. Construction on the remaining buildings had either not started or had been abandoned. Although civil unrest in Sri Lanka may have contributed to the delays in construction at two sites, the primary reason for the delays was inadequate procurement practices by the Government of Sri Lanka (as discussed in the previous section).

Due to the significant delays and resulting cost increases, USAID/Sri Lanka (in July 1990) rescinded the original established amounts and instructed the Government to develop new cost estimates and reassess what facilities should be constructed using available funds. USAID/Sri Lanka also agreed to reimburse the Government for 100 percent of the revised estimated costs instead of just 75 percent.

In August 1990, the Government of Sri Lanka revised its budget (totaling \$1.1 million) for the remaining 46 buildings. To stay within the authorized A.I.D. funding limits, the Government, as of August 31, 1990, had tentatively selected for construction 32 facilities

at six sites—the remaining 14 buildings at two sites were dropped from the plan due to civil unrest and cost increases. The total estimated A.I.D. cost for the 32 buildings is about \$834,000.

In our opinion, increasing the originally established reimbursement amounts is not consistent with A.I.D. policy and the contractual commitments. For example, USAID/Sri Lanka's actions have removed the risk from the Government for the unforeseen cost increases. Furthermore, these actions in addition to relieving the Government of its commitment to build 58 facilities will increase A.I.D. costs by about \$343,000 for the remaining work. Examples of the increased costs are as follow:

- At the Maha Jeuppalama Research Center, the original plan was to build ten buildings (total cost of \$190,000) with A.I.D. paying \$143,000. The revised estimate is that the ten buildings will cost A.I.D. \$276,000.
- At the Gannoruwa Research Center, the original plan was to build two buildings (total cost of \$62,000) with A.I.D. paying \$47,000. The revised estimate is that these buildings will cost A.I.D. \$89,000.
- And at the Girandurukotte Research Center, the original plan was to build one building (total cost of \$48,000) with A.I.D. paying \$36,000. The revised estimate is that this building will cost A.I.D. \$64,000.

While the Government of Sri Lanka did agree (in April 1990) to assume all future construction supervision costs (estimated to total about \$50,000), in our opinion this is not adequate consideration for the increase in A.I.D. costs. Therefore, USAID/Sri Lanka should determine, in coordination with the respective Regional Legal Advisor, whether it was appropriate to rescind the originally agreed upon reimbursement amounts and to increase these amounts for specific construction activities.

### Management Comments and Our Evaluation

Concerning Recommendation No. 8, USAID/Sri Lanka stated that the construction contracting has been rescheduled with tendering planned for January 1991 and that contracts expected to be awarded by the beginning of the third quarter of fiscal year 1991. USAID/Sri Lanka further indicated that it will closely monitor the progress of construction and it hopes to complete construction within the available funding by the fourth quarter of fiscal year 1992.

USAID/Sri Lanka's actions are not totally responsive to our recommendation and the recommendation is considered **unresolved**. In view of the past problems experienced with project construction, we continue to believe that USAID/Sri Lanka needs to establish a date to review the Government's progress towards meeting the revised construction schedule and take appropriate actions if the Government's progress is not

considered satisfactory.

Concerning Recommendation No. 9, USAID/Sri Lanka requested the Regional Legal Advisor to determine the propriety of rescinding the originally agreed upon reimbursement amounts for funding project construction. The Regional Legal Advisor determined that the revision was proper. Based on the Advisor's review, the recommendation is closed.

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**Did USAID/Sri Lanka follow A.I.D. procedures to ensure the Government of Sri Lanka provided its required project contributions?**

USAID/Sri Lanka did not fully follow A.I.D. procedures to ensure the Government of Sri Lanka provided its required project contributions.

The original project agreement and project design required the Government of Sri Lanka to provide the equivalent of \$5.2 million, consisting primarily of salaries (\$2.3 million) and operational and maintenance costs (\$1.9 million) for vehicles, equipment, and facilities. In April 1990, the agreement was amended to increase the Government's required contributions to \$6.7 million, including \$4.9 million for salaries and \$1.3 million for operational and maintenance costs.

We previously reported (Audit Report No. 5-383-87-6, dated September 3, 1987) that USAID/Sri Lanka's procedures were inadequate to effectively monitor Government of Sri Lanka's contributions (including financial and staffing) to A.I.D.-funded projects. An example of inadequate Government of Sri Lanka's contributions identified in that report was in the staffing for the Diversified Agriculture Research Project. The report noted that although a project covenant required the Government to ensure that sufficient numbers of qualified professional and support staff are assigned in a timely manner to meet the project needs, only 37 of the 67 minimum required staff had been provided at the time of the audit (April 1987).

In response to the audit report's recommendations, USAID/Sri Lanka established procedures to help ensure that the Government of Sri Lanka's required financial contributions to A.I.D. projects were provided and monitored, the Government's accounting procedures were adequate, and that staffing obligations are met. However, USAID/Sri Lanka did not fully implement its established procedures and, as a result, lacks assurance that the Government of Sri Lanka is meeting its financial and staffing obligations for the Diversified Agriculture Research Project.

## **Host Country Contributions Need to be Better Monitored**

Although the project agreement required the Government of Sri Lanka to provide a specific level of project contributions, USAID/Sri Lanka did not ensure these contributions were provided. USAID/Sri Lanka did not fully implement prescribed A.I.D. procedures or its own procedures to monitor host country contributions. As a result, USAID/Sri Lanka could not substantiate whether the Government was complying with the agreement.

**Recommendation No. 10:** We recommend that USAID/Sri Lanka implement procedures to ensure the Government of Sri Lanka provides its required financial and staff contributions (these procedures include such actions as having the controller's office review the Government's accounting records for contributions, requiring the Government to submit an annual report summarizing its contributions by project, and reporting the Government's contributions in the mission's project implementation reports).

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

- review host country accounting records to determine whether the records are adequate to ensure and disclose compliance with the project agreement (which would include host country contribution requirements);
- review project implementation from a financial management point of view to determine whether project objectives were met economically and efficiently by the application of funds for manpower, supplies, equipment, and facilities from A.I.D. and host country funding sources; and
- provide financial analyses expertise to mission management of the causes and possible solutions in the event the host country is delinquent or shows other evidence of difficulty in providing its required contributions.

Section 110 of the Foreign Assistance Act provides that host countries in most cases must contribute at least 25 percent of the costs of A.I.D.-funded development assistance projects. The amended agreement for this project (Diversified Agriculture Research Project) includes this requirement and also stipulates a specific amount: \$6,700,000. The agreement also has as a project covenant that the Government of Sri Lanka ensure

that sufficient numbers of qualified professional and support staff are assigned in a timely manner to meet project needs.

Both the October 1987 and the May 1989 project evaluations identified problems with the programming and allocation of host country contributions. For example, the latter report stated that management of resources allocated specifically to the project suffers because allocations to the Department of Agriculture are not tied to specific program areas. The May 1989 report also identified that the actual contributions as of December 31, 1988, were well below that expected: \$937,593 compared to \$2.6 million.

In response to the May 1989 project evaluation finding, a USAID/Sri Lanka project officer and the Chief Accountant for the Government of Sri Lanka Department of Agriculture reviewed (in November 1989) the Government's contributions to the project. Their review determined that the Department of Agriculture's reporting system did not identify project related costs which were incurred under the Department of Agriculture's existing programs in the areas of research, extension, education and training, and seed. They concluded that the Government's contribution to the project exceeded the level agreed to in the original project agreement.

Although these two officials maintain that the required financial and staffing requirements were being met, they could not adequately substantiate their position. For example, they could not substantiate that 10 percent of the personnel costs of several divisions of the Department were to be considered as host country contributions under the original project design and used to determine its actual contributions, nor that these personnel costs were allocated to this project's activities. This is an important issue considering that the revised project design estimates that personnel costs will account for \$4.9 million - or 73 percent of the \$6.7 million of the Government's required contributions.

Furthermore, our review of available documents and discussions with USAID/Sri Lanka and Government of Sri Lanka officials indicate that the required staff provided for in the project design and project agreement may not have been provided and the amount of financial contributions could not be verified due to problems in the Government's accounting systems.

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*In our opinion, USAID/Sri Lanka..., lacks adequate assurance that the Government is meeting its financial and staffing obligations.*

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The lack of assurance that the Government provided its required contributions existed because USAID/Sri Lanka did not implement A.I.D. or its own procedures established for monitoring host country contributions. Examples of USAID/Sri Lanka's procedures not implemented and related problems or questions concerning the level of the Government's contributions are noted below:

- The Government's staffing for projects was to be closely monitored and covered in USAID/Sri Lanka's periodic progress implementation reports. The last progress report which identified a staffing problem (not meeting the project covenant for staffing) was for the period ended December 31, 1988. Although the USAID/Sri Lanka project officer and the Government's Chief Accountant for the project maintained that persons were hired to fill the 67 positions as required, they could not identify when the positions were filled and by whom. It also appears that all of the positions could not have been filled before February 1990 because, according to the Government's Chief Accountant, that is when the final positions were authorized by the Government's Treasury Department. In addition, the Government's Department of Agriculture's internal auditor reported that approximately \$76,000 and \$107,000 was not spent for project personnel costs in calendar year 1988 and 1989, respectively. The reason given was due to unfilled vacancies under the project.
- USAID/Sri Lanka's controller office was to be involved in all discussions of the current Government contribution budgetary status and the subsequent adjustments, if any, which may be made. However, the controller's office was not involved with the November 1989 review by the USAID/Sri Lanka project officer and the Government's Chief Accountant of the Government's contribution to the project. Such involvement was critical, in our opinion, since this review resulted in extensive revisions to estimates and assumptions used to calculate the Government's contributions.
- The Government's External Resources Division was to summarize and report on the Government's contributions to each A.I.D.-funded project annually in February. These figures were to be incorporated into the USAID/Sri Lanka project implementation report's financial data, reviewed by project officers during quarterly project implementation reviews, and compared to on-going project activities and actual achievement of project objectives. The Government's report due February 1990 had not yet been provided as of September 1990. Also, the Government contributions were not identified in any project implementation reports for this project since December 1988.

In our opinion, USAID/Sri Lanka, for reasons discussed above, lacks adequate assurance that the Government is meeting its financial and staffing obligations. To increase such assurance, USAID/Sri Lanka should implement procedures to ensure the Government provides its required financial and staff contributions.

### **Management Comments and Our Evaluation**

USAID/Sri Lanka's comments were not totally responsive to the finding and recommendation and the recommendation is, therefore, considered **unresolved**.

USAID/Sri Lanka stated that its mission order requires and USAID/Sri Lanka does carry out a review of the Government of Sri Lanka's contribution as part of the mission's regular implementation review, but the order does not require specific controller reviews of the Government's host country accounting records. USAID/Sri Lanka believes it, therefore, was implementing its mission order.

We continue to believe USAID/Sri Lanka was not implementing A.I.D. or its own procedures for monitoring host country contributions. Examples of USAID/Sri Lanka's procedures not implemented—including the fact that the Government's staffing for the project was not identified in any project implementation reports for this project since December 1988—are cited on page 32 of this report. Further, although USAID/Sri Lanka's mission order does not require specific controller reviews of the Government's accounting records for host country contributions, such a requirement is contained in A.I.D. Handbook 19.

Although USAID/Sri Lanka maintains that, in general, the Government of Sri Lanka's contributions to the project have been adequate, we believe that the mission lacks adequate assurance that the Government is meeting its financial and staffing obligations. For example, USAID/Sri Lanka referred to information contained in a December 20, 1990, technical assistance contractor memorandum as evidence that Government staffing was adequate. This memorandum, however, included no evidence that the Government met its staffing commitments and, in fact, noted the recent provincialization of parts of the Government's Department of Agriculture may have created some staff shortages. Further, as noted in our report on page 32, both USAID/Sri Lanka and Government of Sri Lanka officials could not provide evidence that the Government had hired persons to fill the 67 project positions as required.

USAID/Sri Lanka further stated that 10 percent of the Department of Agriculture Research Division's expenditures—expenditures considered as host country contributions—was a conservative estimate based on limited knowledge of the Department's programs. It cited a recent study that showed about 30 percent of that Division's budget was for work on subsidiary field crops. USAID/Sri Lanka also stated that the 10 percent figure used in determining other divisions' expenditures for subsidiary field crops was easily supportable and justified. However, USAID/Sri Lanka did not provide any evidence that the original project design envisioned that total expenditures incurred by the Department of Agriculture's various divisions for work related to subsidiary field crops were to be considered as host country contributions nor that these expenditures directly contributed towards meeting project objectives.

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## **Did USAID/Sri Lanka ensure that required audits were made of project activities?**

USAID/Sri Lanka did not ensure that required audits were made of project activities.

The project agreement requires that the Government of Sri Lanka maintains (or causes to be maintained), in accordance with generally accepted accounting principles and practices, books and records related to this project. The agreement also requires that such books and records will be audited regularly in accordance with generally accepted auditing standards.

### **Audits Need to be Performed**

USAID/Sri Lanka did not ensure that the Government of Sri Lanka maintained adequate records on project activities and had audits performed as required by the project agreement. This lack of assurance occurred because USAID/Sri Lanka officials were not fully aware of what is required. As a result, the required audits were not performed to ensure that A.I.D. and the Government of Sri Lanka funds were properly and effectively spent for project purposes. Furthermore, such audits would have identified the need to improve the Government of Sri Lanka's accounting systems which are needed for sound financial management.

**Recommendation No. 11: We recommend that USAID/Sri Lanka take action to assure the Government of Sri Lanka complies with the project agreement's requirements for maintaining adequate records on project activities and for audits.**

The project agreement requires that the Government of Sri Lanka maintains (or causes to be maintained), in accordance with generally accepted accounting principles and practices, books and records related to this project. Such documents should clearly show the receipt and use of goods and services, the nature and extent of solicitation of prospective supplies of goods and services acquired, the basis of award of contracts, and the overall progress of the project toward completion. The project agreement also requires that such books and records be audited regularly in accordance with generally accepted auditing standards.

USAID/Sri Lanka did not ensure that the above requirements were complied with by the Government of Sri Lanka. Although we did not perform an extensive review to determine whether the Government of Sri Lanka's books and records were maintained in accordance with generally accepted accounting principles and practices, we did request Government of Sri Lanka and USAID/Sri Lanka officials for copies of the required audit reports applicable to this project. These officials said the books and records maintained by the Government implementing agency (Department of Agriculture) for this project are audited regularly; but these officials were not able to provide us copies of audit reports to substantiate that the project agreement's requirements were met. Concerning the audit

requirement stipulated in the project agreement, USAID/Sri Lanka officials said they were not fully aware of what is required.

USAID/Sri Lanka recently hired contractors to review certain aspects of the Government of Sri Lanka's accounting and financial management systems. One contractor issued a report in February 1990 on the Department of Agriculture's invoice examination capability and its internal controls, and on its systems and procedures (including procurement procedures) for this project. A second contractor issued a report in August 1990 on the Government of Sri Lanka's overall budget process and financial management systems.

Although neither of these reviews were intended to evaluate the Government of Sri Lanka's compliance with the audit requirement in the project agreement, they did note serious financial management problems and the need for audits as required by the project agreement. For example, one report stated that there were no internal audit reports available on systems and internal controls. The chartered accountants who performed this review said that audits performed on the Department of Agriculture were performed generally to assure documentation was available to support payments—not to assure compliance with the project agreement, to identify progress of the project toward completion, or to assess internal financial management controls.

The second report on the Government of Sri Lanka's overall financial management systems noted that the Government's Auditor General recently identified deficiencies in the Government's Treasury accounts, including accounting for foreign aid funds. This report concluded among other things that

One of the principal criticisms of the current (financial) process in Sri Lanka is the failure to monitor the progress of achieving program objectives as they were approved in the budget. No one appears to know on a regular basis whether activities for which funds have been provided are being used completely for that purpose or are being used in the most effective manner possible.

This second report also suggested that A.I.D. may wish to sponsor a review of the Government of Sri Lanka's accounting systems, noting that: "Accounting systems which produce accurate and timely information is basic to establishing financial management systems that in fact are useful to management."

In our opinion, establishing sound accounting and financial management systems is a critical component in the economic development of a country. Thus, USAID/Sri Lanka needs to take action to assure the Government of Sri Lanka complies with the project agreement's requirement for audits.

## **Management Comments and Our Evaluation**

USAID/Sri Lanka noted that accounts for project transactions are the normal appropriation accounts under programs/projects of the Department of Agriculture. The Government of Sri Lanka's Auditor General undertakes a continuous audit primarily to enable him to certify the annual appropriation accounts. According to USAID/Sri Lanka, the Auditor General, during this process, satisfies himself that expenditures have been incurred with due regard to economy and in accordance with Government financial procedures. USAID/Sri Lanka also stated that the Department of Agriculture also has an internal audit system in operation under the Department's Chief Accountant. USAID/Sri Lanka stated that although it has been aware of these systems and had been satisfied that the Government's audit requirements are being met, it is in the process of contracting for a review of the Government's audit system.

Based on USAID/Sri Lanka's response, Recommendation No. 11 is considered resolved and may be closed once we are provided a copy of the contract for the review of the Government's audit system.

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## **Did USAID/Sri Lanka follow A.I.D. procedures in monitoring, evaluating, and reporting on the project's progress?**

USAID/Sri Lanka did not fully follow A.I.D. procedures for monitoring, evaluating, and reporting on the project's progress. The previous sections of this report identified problems in USAID/Sri Lanka's project management monitoring. This section identifies two other problem areas.

USAID/Sri Lanka had issued appropriate mission orders providing guidance and direction on how projects should be monitored and progress reported. The mission was in the process of reviewing its mission order on procedures for project evaluations.

In addition to issues discussed previously in this report, USAID/Sri Lanka can improve its project monitoring by (1) establishing quantifiable indicators (targets and timeframes) to measure project progress and (2) establishing a system to assure evaluation report recommendations are appropriately implemented.

### **Better Quantifiable Indicators Need to be Established for Measuring Project Progress**

Project progress could not be determined because adequate quantifiable indicators (targets and timeframes) and reporting systems were not established as required by the Foreign Assistance Act and A.I.D. regulations. Better indicators and improved reporting are

needed to effectively monitor and measure project progress.

**Recommendation No. 12: We recommend that USAID/Sri Lanka:**

**12.1 establish quantifiable indicators (targets and timeframes) to measure progress towards accomplishing project objectives, and**

**12.2 ensure that periodic reports to Mission management identify the progress in achieving each established indicator.**

The Foreign Assistance Act requires A.I.D. to establish a management system that includes (1) the definition of objectives, (2) the development of quantifiable indicators to measure progress towards these objectives, and (3) the adoption of methods for comparing actual versus anticipated results. In addition, A.I.D. Handbook 3 requires a reporting system which keeps all parties advised of the current status of project activities.

The indicators established in this project are not adequate to measure the project's progress. A review of the "objectively verifiable indicators" (contained in the project's revised logical framework) reveals that most indicators had not been quantified and none was time-specific. For example:

- The revised project paper lists eight "objectively verifiable indicators" to measure the project purpose: "To strengthen the institutional capability of the DOA (Department of Agriculture) to generate and effectively transfer technologies and seed required to increase and sustain SFC (subsidiary field crops such as chillies and onions) productivity on small farms". However, only one of these indicators was even vaguely quantified and time-specific. In this instance, the indicator was that subsidiary field crop seed processing and marketing system would meet a minimum of 10 percent of annual requirements with a growing private sector role in certified seed production and marketing, but there is no target for the private sector role.
- The project paper lists ten different outputs and assigns each output an indicator. With the exception of two outputs dealing with the number of personnel to be trained and the number of facilities to be improved, none of the other eight indicators had been quantified. For example, one indicator was "Improved seed quality, reduction of losses, adequate and timely supply". However, it did not identify any specific targets. All ten output indicators lacked time-specific criteria to judge progress.

USAID/Sri Lanka project officials pointed out that the project is quite diverse and complex and it was not designed with quantifiable indicators. They stated that they recognized a few years ago that reporting on the project was not adequate and devised a reporting matrix to better track and monitor the project's progress. For example,

although the project paper listed only ten outputs, the project officials expanded this number to over 40 to measure progress towards output achievement.

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*With only three years remaining until project completion and in view of continual delays experienced with certain project inputs,... we believe it is critical that the present monitoring be improved to assure information will be routinely available to management to objectively measure the project's progress.*

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While the expanded matrix may have improved project monitoring and reporting, adequate indicators were still not established. The 40 indicators did not contain specific timeframes. For example, one output was to improve seed quality. However, the indicator did not identify what specific steps were needed to achieve the output or when they were to be achieved.

Although USAID/Sri Lanka had a project monitoring reporting system to keep USAID/Sri Lanka and A.I.D./Washington management informed of project status and problems, the lack of adequate quantifiable indicators made it impossible to assess the project progress from information reported on this project. For example, the March 31 and June 30, 1990 project implementation reports stated one project objective was to develop the Department of Agriculture's capacity to generate and effectively transfer improved relevant and acceptable technologies to farmers in order to increase and sustain subsidiary field crop production. Both project implementation reports indicated as a measure of progress that "Over 2,000 germplasm lines of 35 SFCs (subsidiary field crops) introduced, field tested and 20 outstanding varieties identified so far for release to farmers." However, since no targets were established, such as a specific number of varieties to be released to farmers by a specific date, it is not possible to use this information to objectively measure progress towards achieving the project objectives.

With only three years remaining until project completion and in view of continual delays experienced with certain project inputs, such as procurement of commodities and construction, we believe it is critical that the present monitoring be improved to assure information will be routinely available to management to objectively measure the project's progress. This will require developing quantifiable indicators (benchmarks, targets and timeframes) to measure progress in meeting project objectives and reporting progress in management reports.

#### **System for Following up on Project Evaluation Recommendations Needs to be Improved**

Two interim evaluations were made of the project in 1987 and 1989. Although USAID/Sri Lanka prepared the required evaluation summary for both

evaluations—establishing actions and target dates to respond to evaluation recommendations—it did not have an adequate system for following up on the actions to taken to implement evaluation recommendations. Also, the status of open evaluation recommendations was not being routinely included in USAID/Sri Lanka's project implementation reports as required by the mission's own regulations. USAID/Sri Lanka management, therefore, had no assurance actions were being taken to implement the evaluation recommendations.

**Recommendation No. 13: We recommend that USAID/Sri Lanka:**

- 13.1 establish a system for following up on actions taken in response to evaluation recommendations; and**
- 13.2 include information in quarterly project implementation reports on the status of open evaluation recommendations.**

The primary purpose for conducting an evaluation is to obtain information that can help managers improve the performance and effectiveness of the activity. Therefore, the evaluation process is not completed until action has been taken on the evaluation report recommendations. A.I.D. regulations require that missions establish a system for following up on actions taken in response to evaluation recommendations to ensure that these actions are implemented.

Although USAID/Sri Lanka issued a mission order dealing with its monitoring and evaluation program and included a section on evaluation follow-up, it did not require that a system be established for following up on actions taken to implement evaluation recommendations. USAID/Sri Lanka project officials we interviewed were generally aware of the status of efforts to implement various evaluation recommendation actions but there was no formal documentation or system in place which would readily show the status of efforts to implement the recommendations.

USAID/Sri Lanka was also not always including information on the status of open recommendations in its project implementation reports as required by its mission order dated December 1987 on project implementation monitoring. That order required that quarterly project implementation reports should include information on open evaluation recommendations. However, the project implementation reports we reviewed which were prepared after the second interim evaluation was completed (May 1989) did not include information on the status of open evaluation recommendations. Significant evaluation report recommendations, such as those dealing with long-standing commodity procurement and construction problems, were not fully implemented as of August 31, 1990.

The project officials acknowledged that they did not formally report on the status of evaluation recommendation actions. In fact, the mission's evaluation officer had no

information on the status of efforts to implement evaluation recommendations contained in the most recent project evaluation report.

In our opinion, to ensure project evaluation report recommendations are appropriately implemented, USAID/Sri Lanka should established a system for following up and reporting on such recommendations.

### Management Comments and Our Evaluation

USAID/Sri Lanka does not agree with our finding and recommendation on the need to establish better quantifiable indicators to measure project progress. Accordingly, Recommendation No. 12 is considered **unresolved**.

USAID/Sri Lanka noted several indicators contained in the project paper are "quantified", but that most are "qualified" indicators of institutional change (i.e., improvements to, integration of, upgrading of, etc.). The mission stated that notwithstanding the general language on management systems contained in the Foreign Assistance Act and the evaluation guidance in A.I.D. Handbook 3, the Handbook does not specifically call for "quantifiable" indicators in project implementation. Thus, the mission does not believe that A.I.D. guidance specifically requires that all purpose and output indicators need to be "quantified" nor "objectively measurable" by non-specialists. Further, USAID/Sri Lanka maintained that progress can be objectively verified by outside specialists which, in the case of this project, was accomplished in two independent mid-term evaluations.

In our opinion, the indicators that currently exist for the project are not adequate to measure project progress and do not comply with A.I.D. Handbook requirements. For example, A.I.D. Handbook 3 states that to measure progress from the baseline conditions to the planned targets requires the use of progress indicators and that these indicators are to be subjected to four tests. One of these tests is that the indicators be "targeted"—the indicators **must** contain a magnitude, a target audience/area, and a time when the desired change is to be observable (e.g., increase from 320 graduates from Atlantis Institute of Oceanography in June 1976 to 650 graduates from the Institute in June 1977). Virtually none of the current indicators meet this test.

Concerning Recommendation No. 13, USAID/Sri Lanka maintains that all recommendations contained in the May 1989 evaluation report were addressed and tracked in its quarterly project implementation reports following the evaluation. However, only one quarterly project implementation report prepared after the evaluation (for the quarter ending September 30, 1989) contained any information on the evaluation recommendations, and it was not possible from the information included in this implementation report to determine how many evaluation recommendations were open or the status of the open recommendations.

USAID/Sri Lanka stated that it instituted a procedure for documenting action on evaluations recommendations but acknowledged that information issued on the project evaluation was incomplete. The mission stated that it has since updated information on follow-up actions related to the project evaluation, showing all recommendations were being addressed. USAID/Sri Lanka further stated that it will ensure that the evaluating recommendation system is followed appropriately for this and other projects.

Based on USAID/Sri Lanka's comments, Recommendation No. 13 is closed.

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## REPORT ON INTERNAL CONTROLS

We have audited USAID/Sri Lanka's Diversified Agriculture Research Project for the period August 8, 1984 through August 31, 1990, and have issued our report thereon dated January 31, 1991.

We conducted our audit in accordance with generally accepted government auditing standards, which require we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives; and
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer each of the eight audit objectives and not to provide assurance on the internal control structure.

The management of A.I.D., including USAID/Sri Lanka, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office (GAO) has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget (OMB) has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus the related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable—but not

absolute—assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have classified significant internal control policies and procedures applicable to each of the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation—and we assessed control risk. In doing this work, we found certain problems that we consider reportable under standards established by the Comptroller General of the United States. (Note: The Mission did not report any of these problems in its October 1989 internal control assessment, an assessment required by the Integrity Act.) Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect USAID/Sri Lanka's ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

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## **Audit Objective One**

The first audit objective was to determine the progress of the project. The sources of information included the 1987 and 1989 interim evaluation reports, USAID/Sri Lanka, Government of Sri Lanka, and the technical assistance contractor progress reports, USAID/Sri Lanka financial reports, and interviews. For this objective, the categories of applicable internal controls and the reportable problems are covered under audit objectives two and eight.

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## **Audit Objective Two**

Objective two concerns the reporting done by the technical assistance contractor. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3. We noted two reportable conditions related

to the control and adequacy of the technical assistance contractor's reporting:

- The contractor's workplans did not include target dates or indicators that could be used to adequately measure the project's and contractor's progress;
- The contractor did not include its assessment in its quarterly progress reports as to whether project activities were progressing as scheduled in the workplans or was ahead or behind schedule.

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### **Audit Objective Three**

Part (a) of this audit objective relates to the planning of participant training. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3.

Part (b) of this objective relates to the selection of candidates to be sent for participant training. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 10 and USAID/Sri Lanka's Mission Order on training. For the purpose of this report, we have classified the relevant policies and procedures into the following categories: English proficiency and medical certification.

We noted two reportable conditions relating to the selection of participants:

- Some participants were allowed to be sent for training without being tested to ensure that they met the established requirements for English proficiency; and
- Short-term participants were sent for third country training without receiving and passing a required medical examination and/or the participants' files did not contain a medical certification.

Part (c) of this objective relates to the monitoring of participants' performance. In planning and performing our audit of the monitoring of participants' performance, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 10.

Part (d) of this objective relates to the requirement of follow-up procedures to monitor returned participants to ensure their obligations to work in their development fields are being honored and their training is being utilized. In planning and performing our audit of the follow-up procedures, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 10 and requirements under the project agreement

with the Government of Sri Lanka.

We noted one reportable condition relating to the requirement for follow-up procedures.

- USAID/Sri Lanka did not establish a monitoring system to ensure participants work in positions where their training can be utilized.

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## **Audit Objective Four**

Objective four concerns the procurement of commodities by the host government's Department of Agriculture. In planning and performing our audit of these procurements, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 1, 11 and 15. For the purpose of this report, we have classified policies and procedures into the following categories: (1) planning commodity procurements, (2) receiving, inspecting, and distributing commodities, and (3) controlling and using equipment. We noted the following reportable conditions relating to project commodities:

- The Government of Sri Lanka did not procure project commodities in an efficient and timely manner.
- Some A.I.D.-funded commodities were not being adequately inspected upon arrival in Sri Lanka nor were commodities distributed to project sites on a timely basis
- The Government of Sri Lanka was not submitting equipment utilization reports as required and USAID/Sri Lanka was not adequately monitoring the use of equipment.

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## **Audit Objective Five**

This objective relates to the procurement of construction contracts. In planning and performing our audit of these procurements, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 11. For the purposes of this report, we have classified the relevant policies and procedures into the following categories: (1) contractor selection and award, (2) inspection and acceptance of finished construction, and (3) the construction payment process.

We noted the following reportable condition:

- The Government of Sri Lanka was not carrying out project construction activities efficiently and effectively.

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## **Audit Objectives Six, Seven, and Eight**

These objectives relate to USAID/Sri Lanka's oversight of the project. In planning and performing our audit of USAID/Sri Lanka's oversight, we considered the relevant internal control policies and procedures cited in A.I.D. Handbook 3. For the purposes of this report, we have classified the relevant policies and procedures into the following categories: project management structure process, project implementation letter process, conditions precedent and covenants process, host country contribution monitoring process, project budget process, technical services monitoring process, site visit process, project implementation report process, and project evaluation process.

We noted the following reportable conditions:

- USAID/Sri Lanka did not establish adequate quantifiable indicators to objectively measure the progress of the project;
- USAID/Sri Lanka did not establish a system for following-up on project evaluation report recommendations to ensure the recommendations were implemented;
- USAID/Sri Lanka did not fully follow A.I.D. procedures to ensure the Government of Sri Lanka provided its required project contributions; and
- USAID/Sri Lanka did not ensure that the Government of Sri Lanka maintained adequate records related to project activities and had audits performed as required by the project agreement.

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A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on project funds being audited may occur and may not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that

might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described above are material weaknesses.

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## REPORT ON COMPLIANCE

We have audited USAID/Sri Lanka's Diversified Agriculture Research Project for the period August 8, 1984 through August 31, 1990, and have issued our report thereon dated January 31, 1991.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grant and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with laws, regulations, contracts, and grants applicable to the Project is the overall responsibility of USAID/Sri Lanka's management. As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Sri Lanka, contractor, and host-government compliance with certain provisions of Federal laws and regulations, and contractual obligations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests of compliance disclosed the following significant instances of noncompliance:

- Audit Objective No. 2 - The technical assistance contractor was not complying with the contract requirements for the preparation of workplans which should include the strategy to meet project objectives and the reporting on progress towards meeting the plan.
- Audit Objective No. 4 - The Government of Sri Lanka violated Section 660 of the Foreign Assistance Act by diverting six project vehicles for internal security use by its army and police. (Although these vehicles had been returned to the project by the time of the audit, USAID/Sri Lanka needs to determine the legality of the method being considered for seeking appropriate restitution for the unauthorized use of the vehicles).
- Audit Objective No. 7 - Government of Sri Lanka and USAID/Sri Lanka officials could not provide evidence that the Government regularly audited the books and records relating to the project as required by General Covenant, Section B5 of the project agreement.

Except as described, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Sri Lanka, the technical assistance contractor, and the Government of Sri Lanka complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe USAID/Sri Lanka, the technical assistance contractor, and the Government of Sri Lanka had not complied, in all significant respects, with those provisions.

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## SCOPE AND METHODOLOGY

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### Scope

We audited USAID/Sri Lanka's Diversified Agriculture Research Project in accordance with generally accepted government auditing standards. We conducted the audit from June 4, 1990 through August 31, 1990, and covered the systems and procedures relating to project inputs financed by A.I.D. from August 8, 1984 (project inception) through August 31, 1990. As noted below, we conducted our field work in the offices of USAID/Sri Lanka, the Government of Sri Lanka's Department of Agriculture and the technical assistance contractor, as well as at various project sites in Sri Lanka.

The audit objectives did not cover the following areas:

- The audit did not determine whether qualified and eligible commodities were obtained at a fair price for procurements either completed or on-going being conducted in the United States by the Procurement Services Agent.
- The audit did not evaluate the selection, award or performance of the Architect/Engineer contractor because at the time of the audit this contract was no longer in effect. The architectural/engineering duties were taken over by Central Engineering Consultancy Bureau, a host government agency. All the costs of the architectural and engineering services are now paid by the Government of Sri Lanka. The audit also did not evaluate the selection and award of the technical assistance contracts because the first contract, which expires in August 1990, was awarded in 1984 and USAID/Sri Lanka was in the process of awarding a follow-on contract.

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## **Methodology**

The methodology for each audit objective follows.

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### **Audit Objective One**

To accomplish the first audit objective, we reviewed documents, such as the project paper and agreements, the 1987 and 1989 project evaluation reports, USAID/Sri Lanka's project implementation reports, and monthly, quarterly, and annual progress reports prepared by the technical assistance contractor, to determine the project objectives and identify progress towards meeting these objectives. We also interviewed USAID/Sri Lanka, technical assistance contractor, and Government of Sri Lanka officials to obtain their views on the project's progress and problems.

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### **Audit Objective Two**

To accomplish the second audit objective, we determined what the technical assistance contractor was required to prepare in the way of workplans and progress reports. We reviewed and analyzed various contractor prepared workplans and progress reports, covering the period 1987 through 1990, to determine if the reporting complied with the technical assistance contractor's contract requirements. We also interviewed USAID/Sri Lanka and technical assistance contractor officials to discuss the adequacy of the contractor's reporting.

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### **Audit Objective Three**

To accomplish part (a) of the third audit objective, we reviewed the project paper to determine the initial targets (timeframes, trainees, and budgets) for the participant training program. We then interviewed USAID/Sri Lanka officials and the technical assistance contractor and reviewed financial reports to determine if the training programs were on schedule. If the training program had deviated from the initial plans, we reviewed project files and interviewed USAID/Sri Lanka officials to determine what revisions had been made to the original plans.

To accomplish part (b) through (d) of this objective, we determined whether (1) the selection process for candidates adhered to the prerequisites for medical certification, and English proficiency, (2) participant performance was adequately monitored and completion of course was verified, and (3) a follow-up program for returned participants was implemented.

To accomplish these objectives, we selected a judgmental sample of 20 participants from a population of 366 participants already sent for training under this project at the time of our audit. Our sample concentrated on students who completed their courses to determine if participants are using their training.

The sample contained 11 long-term and 9 short-term students and was based on the proportion of cost spent on these two categories of training. For short-term students, we selected participants who were sent for training in 1989 and 1990 because post-training obligation to A.I.D. for most of these students is one year, and also it would enable us to examine the most recent system in place. We examined the training file of each of the 20 participants selected to obtain documentation indicating whether part (b) through (d) of this objective had been met. We also interviewed 16 out of 17 participants who completed their training to determine if they were assigned to work where they could effectively use their training.

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### **Audit Objective Four**

To accomplish the fourth audit objective, we determined USAID/Sri Lanka and the government of Sri Lanka followed A.I.D. procedures in (1) planning for commodity procurements; (2) awarding contracts for commodities; (3) providing an adequate accounting for the receipt of commodities; and (d) ensuring the timely and effective use

of commodities.

To determine whether USAID/Sri Lanka and the Government of Sri Lanka followed A.I.D. procedures in planning for commodity procurements, we reviewed the project implementation plan and administrative analysis from the project paper and compared them to actual performance.

To determine whether USAID/Sri Lanka and the Government of Sri Lanka followed A.I.D. procedures in awarding contracts, we reviewed the tender documents and evaluations of the Department of Agriculture's tender boards for procurements totaling \$217,000 or 33 percent of all procurements completed as of August 31, 1990.

To determine whether USAID/Sri Lanka and the Government of Sri Lanka followed A.I.D. procedures in accounting for the receipt of commodities, we interviewed the Department of Agriculture's Chief Warehouseman; reviewed a report prepared by chartered accountants on the arrival accounting system; traced a judgmental sample totaling \$334,000 (55 percent of all commodities received as of August 31, 1990) to the Department of Agriculture's Inventory Log and Inspection Reports; and reviewed correspondence between the Department of Agriculture and the Purchasing Service Agent following up on damaged and missing items.

To determine whether USAID/Sri Lanka and the Government of Sri Lanka followed A.I.D. procedures in ensuring the timely and effective use of commodities, we traced a judgmental sample totaling \$344,000 (55 percent of all the commodities received as of August 31, 1990) to the Department of Agriculture's Inventory Log and calculated the number of days these items spent in the warehouse; reviewed the Department of Agriculture's inventory of items funded by the project; and, reviewed seven trip reports prepared by the project officer. We also visited four project sites where we inspected commodities costing about \$315,000, representing about 60 percent of all commodities issued to the field as of August 31, 1990, to determine if the commodities were being properly accounted for and effectively used.

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### **Audit Objective Five**

To accomplish the fifth audit objective, we determined whether USAID/Sri Lanka and the Government of Sri Lanka followed A.I.D. procedures in obtaining (1) qualified and eligible construction contractors at a fair price; (2) timely, effective, and efficient construction services; and (3) an adequate accounting for the services provided.



To determine whether USAID/Sri Lanka and the Government of Sri Lanka followed A.I.D. procedures in obtaining qualified, eligible, construction contractors at a fair price, we reviewed the Project Implementation Letters that established the Fixed Amount Reimbursement (FAR) Method for construction and traced the established FAR amounts for all completed construction (\$115,000) to the Bills of Quantities and cost estimates approved by USAID/Sri Lanka's engineering staff.

To determine whether USAID/Sri Lanka and the Government of Sri Lanka followed A.I.D. procedures in obtaining timely, effective, and efficient construction services, we inspected all completed construction (twelve buildings at two sites); reviewed the project officer's files on construction; and interviewed the Department of Agriculture's Chief Civil Engineer.

To determine whether USAID/Sri Lanka and the Government of Sri Lanka followed A.I.D. procedures in obtaining an adequate accounting for the services provided, we traced all payments made by USAID/Sri Lanka for project construction to the Project Implementation Letters establishing the Fixed Amount Reimbursement (FAR) Method and reviewed the Project Officer and USAID/Sri Lanka Engineer's inspection reports on the completed construction. We also traced all payments (\$40,000) made to the Architect Engineering contractor to supporting vouchers and invoices.

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### **Audit Objectives Six, Seven and Eight**

To accomplish these objectives, we determined whether USAID/Sri Lanka (1) ensured that the Government of Sri Lanka provided its required project contributions; (2) ensured that required audits were made by the Government of Sri Lanka of project activities; and (3) followed A.I.D. procedures in monitoring, evaluating, and reporting on the project progress.

To determine whether USAID/Sri Lanka ensured the Government provided its required project contributions, we (1) reviewed the project paper and agreements to determine the required level of contributions, (2) followed up on previous audit findings reporting on problems with host country contributions, (3) reviewed various USAID/Sri Lanka and Government of Sri Lanka reports on project contributions, and (4) held discussions with USAID/Sri Lanka and Government of Sri Lanka officials on the adequacy of the contribution levels.

To determine whether USAID/Sri Lanka ensured required audits were performed, we (1)

reviewed the project paper and agreements to determine the applicable audit requirements and (2) held discussions with USAID/Sri Lanka and Government of Sri Lanka officials to ascertain what audits, if any, were conducted of project activities.

To determine whether USAID/Sri Lanka followed appropriate A.I.D. procedures for monitoring, evaluating, and reporting on the project, we (1) analyzed audit findings and supporting documentation to identify weaknesses in the project management structure; (2) followed up on prior audit findings to determine if appropriate corrective actions were taken; (3) determined whether Project Implementation Reports accurately reported the progress of the project, delays, substantive issues, and problems, and the actions taken; (4) determined whether adequate quantifiable indicators were established and reporting systems were in place to objectively report on the project's progress and problems; and, (5) determined whether adequate systems were in place to ensure project evaluation report recommendations were implemented. We interviewed USAID/Sri Lanka, technical assistance contractor, and Government of Sri Lanka officials to discuss the adequacy of the monitoring, evaluation, and reporting systems. We also examined various documents, such as Mission Orders, project evaluation reports, project officers field visit reports, and relevant memoranda and reports of the project committee, project officer and other personnel.

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# memorandum

DATE: January 18, 1991

REPLY TO  
ATTN OF: Richard M. Brown, Director 

SUBJECT: Response to Draft Audit Report of the Diversified Agriculture Research Project (383-0058) in Sri Lanka, dated December 1, 1990

TO: Mr. Jim Durnil, RIG/Singapore

Overall, we found the Report to be useful in focussing on possible vulnerabilities in our project management systems. However, we also believe that the Report did not fully reflect appreciation of the early efforts made by project staff to resolve project problems nor the full range of the Project's achievements and their importance. We consider the Diversified Agriculture Research Project amongst the better performing projects in our portfolio and believe that the audit process has further strengthened it. It has also enabled us to look to potential vulnerabilities in our other projects. We cooperated fully in this process, providing several months of FSN and USDH time to the audit activity, and worked collaboratively with the audit team to produce a constructive report. As the following discussion explains, we believe that most of the audit recommendations can be closed by actions which have been taken.

Following comments relate to the different sections of the audit report.

## PROJECT PROGRESS

The Progress of the project is noted in each contractor annual report, has been independently assessed in two mid-term evaluations, and most recently reviewed in the project amendment. The general conclusion of the second mid-term evaluation (May, 1989) stated:

"A substantial amount of research on the SFC has been undertaken. Within a few years, the research on SFC has become quite broadly based. Selection of varieties of SFC for adaptation to the various micro-climates and soils, and other aspects such as disease and pest resistance and control, tillage and cultural practices have been undertaken. An effort has begun on related aspects dealing with water management and agro-climatic studies. The socio-economic studies have provided for the first time a data base related to SFC

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cropping systems, production costs and marketing. These data can now begin to strengthen efforts to orient agronomic and other research more intimately to the farmers' situation. Good progress has been made in restructuring the seeds component and commercialization has begun through pilot activities".

The PP Supplement of April, 1990 summarized the project's progress as follows:

"With few exceptions, the project has made good progress towards its objectives as outlined in the original project paper. Both DARP interim evaluations completed to date judged the project to be successful and fully endorsed the project's approach and design. Table 1 highlights areas of progress towards attainment of project goals which DARP has achieved this far. This progress is most significant in the areas of privatization of the national seed industry and improved management of SFC research within the DOA

The Supplement included a detailed list of project accomplishments (Attachment A). While no new varieties had been formally released at the time of the audit, preparatory work had enabled seven to be recommended by the Variety Release Committee of the Department of Agriculture for release in November, 1990 and we expect that at least five more will be released during the life of the project.

#### CONTRACTOR WORKPLANS AND REPORTS: RECOMMENDATION NO. 1

The draft audit report indicates that workplans did not include all requirements, i.e. completion dates and interim targets. USAID Staff have worked closely with the contractor and GSL in the preparation of useful and comprehensive workplans. The May 1989 project evaluation states "The DOA LOP workplans have become the most effective instrument for project management, enhancing focus and prioritization of research and extension and seeds division activities on SFC, by establishing annually step wise targets and assessments of progress". In response to the draft report's finding that there was considerable duplication in the annual plans, one might recognize that research work plan are by necessity very similar as most trials must be repeated over a period of several years before valid conclusions can be drawn. USAID staff has taken considerable efforts to ensure adequacy of the workplans. The PIL and/or Action Memos approving the LOP workplan was approved by seven USAID staff. USAID and the Department of Agriculture have already requested the TA contractor to complete a workplan for the final phase of the project which will be discussed and finalized during meetings February 5-7, 1991. We agree that activity completion dates and quantifiable targets to the extent possible are helpful and we have already so instructed the contractor to ensure they are incorporated in all subsequent work plans (Attachment II-B).

The contractor has submitted 215 reports, including 132 consultant reports and 83 progress reports. In most cases, the Project Officer reviewed and commented on reports in draft hence, there was no formal written response. Consultant reports are always reviewed in informal debriefings with Project Officers and generally in more formal debriefings open to other USAID staff. Actions on issues raised in reports are taken in meetings with GSL and the contractor. With this procedure we have not felt it necessary nor required to document formally every review of the contractor's progress reports. In the future, we will document when reports do not meet contract requirement. Based on our instructions to the contractor regarding work plans and reporting, we request that Recommendation No. 1 be closed.

#### TRAINING: RECOMMENDATION NOS. 2, 3 AND 4

The audit report has raised questions about adequate verification of English ability or medical certification. The Department of Agriculture insists that participants selected have adequate English ability to handle their training programs and has nominated participants accordingly. The contractor ensures that TOEFL scores are available for all U.S. long-term training and that TOEFL or a certificate of English competence is available for third country long-term training. Over the life of the project, there has been only one case of complaint from a training institution regarding a participant's language capability and this was a case where a TOEFL test had been administered and a marginal score accepted. TOEFL tests were not always conducted for short-term training. The contractor has now been advised to administer English tests to all future U.S. short-term participants as well (Attachment C). It might be mentioned that in the Mission's extensive training experience, there have been no complaints on the English language skills of our short-term participants from either OIT or the training institutions. For third country short-term training, the contractor provides documentation as required for the specific program or accepts GSL assessment of language capability.

Based on our notification to the GSL and the contractor that all participants must have adequate English capability, we recommend that Recommendation No. 2 be closed. USAID/Sri Lanka is also requesting an OIT waiver of the requirement of English Language testing for Sri Lankan short-term participants based upon existing procedures within the PIO/P approval process which ensures that English Language requirements are adequately met.

The contractor has required medical exams for all participants sent to the U.S. Copies of medical certificates for all A.I.D participants in the U.S. are maintained in the Training (rather than Project) files. The GSL requires medical certificates from Government Medical Officers for all participants on programs of one month or more, but these have not

been kept on file. The medical certificate for Mr. Amarasinghe was found in USAID Training files. The contractor has now been advised to keep full documentation of the medical certification for all future participant training programs (Attachment C). Based on these instructions to the contractor, we recommend that Recommendation No. 3 be closed.

USAID staff and the contractor have worked with the Department of Agriculture to improve utilization of participant trainees. A short-term consultant assisted the Department with procedures for monitoring the use of trained staff (from in-country and overseas training). Most returned participants have presented seminars and the contractor is in regular contact with long-term participants. The statements of two participants interviewed do not appear justified: one admits to using training in 20 percent of his work (research), but research training is also important to major duties in research administration (80 percent of his time); the other works in a central office coordinating field programs, duties which benefit from training in these programs. Nevertheless, we have instructed the contractor to improve reporting on placement of returned participants (Attachment D). Based on this action, we recommend that Recommendation No. 4 be closed.

#### PROCUREMENT OF COMMODITIES: RECOMMENDATIONS NOS. 5, 6 AND 7

The PP outlined a commodity procurement plan, which has been followed to date. As stated in the 1989 Evaluation report, problems developed because the PSA procurement system was unfamiliar to the GSL and duplicated the required GSL approval systems. GSL direct local and off-shore procurement has been comparatively faster. There have been delays in procurement despite numerous attempts by USAID staff to facilitate procurement including meetings with the Ministry of Finance. These efforts have resulted in, albeit slow, an improvement in the procurement system with orders placed for items totalling \$919,500 by end December 1990. A procurement plan for the remainder of the project is to be finalized at the time the new workplan is prepared in February, 1991. The Department of Agriculture is presently working on this procurement plan. Based on this major procurement and the up-dated procurement plan being prepared and extensively reviewed by USAID, we request that Recommendation No. 5 be closed.

Many of the delays noted in commodity distribution were due to or exacerbated by the serious security problems in the country during the period 1988-1990. Furthermore, the PP Administrative Analysis did briefly evaluate the GSL commodity arrival and distribution system and assessed to be "cumbersome, but adequate." Nonetheless, the need to ensure that distribution delays are not repeated is obvious and we have requested the GSL to take action on the disk harrow and ensure that commodity distribution is expedited (Attachment E). Based on this action, we request that Recommendation No. 6 be closed.

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Although the DOA did submit commodity inventory records, no utilization records were requested as most of the equipment was newly acquired. In reviewing equipment utilization, it should be noted that much of the agriculture equipment is used seasonally and may be in use only a few weeks in a year. USAID staff have checked GSL inventories and spot checked the status of equipment. The Mission can improve implementation of the Mission Order by spot checking equipment utilization and maintaining a central file of trip reports. However, maintenance of a complete inventory of project commodities must remain a host country obligation and we have requested the GSL to submit an annual equipment utilization report (Attachment F). Based on this action, we request that Recommendation No. 7.1 and 7.2 be closed. USAID does maintain a system for tracking procurement actions which is being strengthened to include end-use monitoring (Attachment G).

Regarding the unauthorized use of project vehicles, USAID/Sri Lanka took action to obtain compensation for unauthorized use (Attachment H). Inadvertently the calculations on vehicle 98/3960 was entered 1989 instead of 1987. In this case we do not believe it is fair to charge more than the full cost of the vehicle (\$9,530). However, we are prepared to charge the balance between the full cost of the vehicle and the rental fee the GSL has paid (\$6,554). However, this vehicle is now being used by the project. We believe the other two vehicles mentioned in the audit were serving the project interests although they were located in the Ministry headquarters. We are aware that the A.I.D.-financed vehicles cannot be used for law enforcement or military uses and has required compensation from the GSL for this diversion. By agreeing to compensate all projects for these diversions the GSL also demonstrates its willingness to abide by the terms of our grant agreement.

The audit suggests that the GSL not be permitted to make their compensation payment through increased host country contributions to the project. We believe that it is fair to accept this method of payment. If we were to ask for a cash payment, that payment would still be exclusively used for additional investment in the project. To the extent that the GSL increases its host country contribution (on budget items) to the project the same ends are achieved. USAID/Sri Lanka is referring this issue to the RLA and will advise RIG/Singapore when action has been taken to close Recommendation No. 7.3.

#### CONSTRUCTION: RECOMMENDATION NOS. 8 AND 9

Construction delays have been a major project issue widely discussed in the evaluations, implementation reviews and meetings with senior government officials at the senior-most levels. It is also one reason for the Project Amendment and extension. Civil unrest and economic conditions have hampered resolution.

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The construction contracting is now re-scheduled with tendering planned for January, 1991 and contracts expected to be awarded by the beginning of the third quarter of FY 1991. USAID staff will continue to closely monitor the progress of construction and hopes to complete construction within the available funding by the fourth quarter 1992. We note that these facilities are important to attaining project objectives and in a worst case scenario, it may become necessary to retender some contracts, in which case we will attempt to ensure completion of construction during the life of the project. Based on the current schedule for construction and our close monitoring of the situation, we recommend that Recommendation No. 8 be closed.

As the PP Amendment explains, the decision to renegotiate the FAR Agreement was based not only upon GSL contracting difficulties but also upon the delays and increases due to the extraordinary, external factors of civil turmoil and economic crisis. Whatever the reasons for the delay and price increases, in the current economic situation, without revision of the FAR, the GSL would not have the budgetary resources necessary to complete further construction, hence the project's objectives would not be achieved. The GSL has however agreed to cover all engineering and supervision costs and will maintain its 31.5% contribution to total project costs. The RLA approved the decision to revise the FAR in the Project Amendment Authorization and ProAg Amendment and we have received an opinion from the RLA indicating that the revised FAR agreement is proper (Attachment I). Based on this response, we request that Recommendation No. 9 be closed.

#### GSL CONTRIBUTIONS AND AUDITS: RECOMMENDATIONS NOS. 10 AND 11

Although DOA submitted expenditure reports, they were not comprehensive. The Mission Order requires and USAID carries out a review of GSL contributions as part of the Mission's regular implementation reviews, but does not require specific Controller reviews of GSL accounting records. Hence, the Mission is implementing its Mission Order. In general the GSL contributions have been adequate. The Audit Report states that up to \$2.5 million (from Table 2 in PP Amendment) is for 88 new posts. The actual provision for the 88 posts is \$640,000 (exclusive of inflation) per Table 4 in the PP. The difference between Table 2 and 4 represents expenditures on "personnel" engaged in DARP-related (SFC) activities in the Division of Research, Extension, Education/Training and Seed. These are expenditures apportioned as GSL contributions to DARP-related activities by major Divisions of the Department of Agriculture. As the GSL is under pressure from donors including USAID to reduce budgets especially salaries and we believe that the GSL staff contribution to DARP is adequate (Attachment J) we would not encourage the GSL to hire new staff.

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The estimate that 10 percent of Department of Agriculture Research Division expenditures were for DARP-related SFC work was a conservative estimate based on limited knowledge of the Department's programs. Since that time a report on Agricultural Research in Sri Lanka from the International Service for National Agricultural Research (ISNAR) dated March, 1990, has become available and presents a break down of research expenditures by crop for 1989. This shows that approximately Rs.24.4 million of a total Rs.80.1 million research budget was for work on SFC's, indicating that approximately 30.4 percent of Department of Agricultural Research Division expenditures were legitimate counterpart contribution to the DARP Project. Since the other divisions proportionate expenditures for SFC development are lower than those of the Research Division and since we do not wish to over-estimate the GSL contribution, we consider the ten percent figure used in estimating GSL contribution to be easily supportable and justified. By clearance of the memo, the USAID Controller Office indicates acceptance of this estimate. Based on this additional information, we request that Recommendation No. 10 be closed.

The Project Agreement Standard Provisions require generally accepted accounting principles to be followed. It does not specifically call for project accounts to be submitted periodically nor does it call for special reports from the GSL/Auditor General or a special GSL accounting system for the project. Accounts for project transactions are the normal appropriation accounts under programs/projects of the Department of Agriculture. The GSL/Auditor General (answerable to the Parliament) undertakes a continuous audit primarily to enable him to certify the Annual Appropriation Accounts. In this process he satisfies himself that expenditures incurred are within the ambit of the program/project and that expenditure has been incurred with due regard to economy and in accordance with GSL financial procedures. The Auditor General's audit also covers transactions relating to procurement, custody and utilization of stores and equipment. The DOA, in addition, has an Internal Audit system in operation under the Chief Accountant. We have been aware of these systems and had been satisfied that GSL auditing requirements are being met. However, we are in the process of contracting for a review of the GSL audit system and have prepared terms of reference for this review. The GSL also states that audit responsibilities are being met (Attachment K). Based on this information, we recommend that Recommendation No. 11 be closed.

#### QUANTIFIABLE INDICATORS: RECOMMENDATION NO. 12

Indicators for the Project are in the first instance provided in the PP logical framework which gives a set of 5 purpose-level indicators and 9 output-level indicators. Several of these indicators are "quantified" (i.e. numerical); most are qualitative indicators of institutional change (i.e. improvements to, integration of, upgrading of, etc.). The output indicators were tracked at Quarterly Project Implementation Reviews which

examine progress to date, progress for the quarter and actions planned for next quarter. Both Project evaluations also "measured" progress against these indicators with the second technical evaluation closely examining progress relative to these indicators.

The PP Amendment elaborated and expanded on the number of purpose-and output-level indicators (Attachment L) and included time-bound plans for training, construction and procurement (Attachment M) against which progress could be objectively measured. As discussed in Section II, the contractor's reports also showed progress against indicators (Attachment N). Notwithstanding the general language on management systems in the FAA and the Evaluation guidance in Handbook 3 the Handbook does not specifically call for "quantifiable" indicators in project implementation. Thus, the Mission does not believe that A.I.D guidance specifically requires that all purpose and output indicators need to be "quantified" nor "objectively measurable" by non-specialists. Progress indicators can be objectively verified by outside specialists which, in this case, was accomplished in two independent mid-term evaluations. We continue to make every effort to better quantify and "put numbers" on indicators. However, numbers can prove deceptive and problematical in many institutional and policy indicators. The second project evaluation specifically states:

"Inasmuch as the major outputs are stated in an institutional and capacity-building framework, evaluation of progress becomes qualitative and judgemental. Determinations centered solely on the achievements of contractual targets could greatly undervalue institutional capacity achievements".

Progress in institutional development and policy change is also often "lumpy" or contingent, rather than quantifiably or numerically incremental. For example, improved information flows and decision-making or changes in macro economic policies. Thus, indicators cannot always be expressed in simple numbers or percentages. Due to the lack of any A.I.D regulatory requirement or policy guidance on this issue, and our willingness to endeavour to the extent possible to consider quantifiable measures, we request that Recommendation No. 12 be closed. It may also be an issue which the RIG might wish to raise directly with AID/Washington as to the interpretation of the FAA language as it pertains to project implementation.

#### EVALUATION: RECOMMENDATION NO. 13

All of the recommendations from the May 1, 1989 evaluation were addressed and tracked in the Quarterly Project Implementation Reviews following the Evaluation (Attachment O). The PP Amendment lists specific evaluation recommendations and actions which are now part and parcel of the implementation plan for the final phase of the project. The USAID

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Program Office instituted a procedure for documenting action on Evaluation recommendations and issued a monitoring report on the DARP audit on August 30, 1990 which was inadvertently incomplete, but has subsequently been completed (Attachment P) showing all recommendations being addressed. USAID will ensure that the evaluation recommendation system is followed appropriately with this and its other projects. Based on this action, we request that Recommendation No. 13 be closed.

Clearance: AGR:SHCharles(Draft) *SHC*  
 CTR:GFernando(Draft) *GF*  
 PRJ:WJeffers (Draft) *WJ*  
 PRM:RCasey (Substance) *RC*  
 DD :GJones (Draft) *GJ*

*GA*  
 AID:AGR:GEAlex/Ganders:ct  
 January 17, 1991  
 0324C

Note: The documents attached to USAID/Sri Lanka's comments are not included in this report.

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