

**AUDIT OF USAID/BOLIVIA's
CHAPARE REGIONAL DEVELOPMENT
PROJECT NO. 511-0543**

**Audit Report No.1-511-91-013
August 29, 1991**

USAID/Bolivia was adequately monitoring the Government of Bolivia counterpart contributions. However, a monitoring and evaluation plan had not been developed for the project, required inventory systems had not been established, and some important implementation problems were not being addressed.

AGENCY FOR INTERNATIONAL DEVELOPMENT

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August 29, 1991

MEMORANDUM

TO: D/USAID/Bolivia, Carl Leonard

FROM: 
RIG/A/T, Reginald Howard

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project
No. 511-0543, Audit Report 1-511-91-013

Enclosed are five copies of our audit report on USAID/Bolivia's Chapare Regional Development Project.

We have reviewed Mission comments on the draft and included them as an appendix to the report. The Mission generally agreed with the report's six recommendations. However, it disagreed with our premise that there was a decrease in narcotic activity in the Chapare. The Mission believed any improvements in the area's infrastructure would continue to benefit narcotic traffickers. Moreover, the Mission believed we overemphasized the negative effect of low farmer participation in the credit program and overstated the negative aspects of project monitoring. The Mission had started taking action to resolve some of the recommendations.

Recommendations Nos. 1 through 6 are unresolved upon the issuance of this report.

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

Enclosures

EXECUTIVE SUMMARY

A.I.D. has been encouraged by legislation to develop programs and projects to help reduce illicit drug-crop cultivation by providing incentives for alternative sources of income generation. The Chapare Regional Development Project was authorized in 1983 with the goal to encourage the reduction in the cultivation and illicit trafficking in coca through the achievement of balanced economic development and an enhanced standard of living in the Chapare region.

The Project consisted of three components: (1) agricultural and forestry production (2) agribusiness development and (3) project administration/institutional development. The Project complements the Government of Bolivia program which encourages farmers to eradicate coca by offering \$2,000 per hectare eradicated through promotion of alternative crops, credit and social infrastructure programs to farmers eradicating their coca planting.

It is A.I.D.'s policy to provide economic alternatives to farmers in narcotics growing areas. A.I.D.'s Chapare Regional Development Project, authorized in 1983, was planned to do just that. However A.I.D.'s efforts have been adversely affected in the Chapare region of Bolivia, one of the largest coca-producing areas in the world because of limited infrastructure, credit acceptance, and lack of coordination.

The effective interdiction efforts which have resulted in a substantial reduction in the demand for coca grown in this region has created an environment for the successful implementation of alternative cropping systems - USAID's primary emphasis under this project. An accurate number of farmers participating in the alternative crop program has not been established. However, of the approximately 10,000 farmers who received funds for eradicating coca only 10 percent have received loans to assist in their participation in the alternative crop program.

As of December 31, 1990 USAID/Bolivia had obligated \$38.5 million with expenditures of \$26.7 million for the Project.

We audited USAID/Bolivia's Chapare project in accordance with generally accepted government auditing standards (see Appendix I) and found the following:

- Although the project intended to develop the road and electrical infrastructure of the Chapare progress lagged (see page 8).

- USAID/Bolivia did not ensure that project plans were submitted timely and included technical assistance input (see page 13).
- Coordination between implementing organizations needs improvement (see page 20).
- The project's credit component experienced lower farmer participation and higher delinquency rates than expected (see page 25).
- USAID/Bolivia had designed an inventory control system but the system was not used (see page 29).
- USAID/Bolivia needs to substantially improve its monitoring (see page 35).
- USAID/Bolivia had established and implemented a system to monitor the Government of Bolivia counterpart funding for the Project (see page 43).

The report contains six recommendations. It also presents our assessment of internal controls (see page 45) and on USAID/Bolivia's compliance with applicable laws and regulations (see page 53).

A draft of this report was provided to mission officials for comment. In responding to the draft report, the Mission stated that the report's findings, although important, were relatively minor given the scale and complexity of the project. They generally agreed with the report's findings and recommendations, but thought the report overemphasized low farmer participation in the credit program and overstated the negative aspects of project monitoring. In our view the findings focus on problems related directly to the purpose of the Project, i.e., lack of infrastructure and economic alternatives. As discussed in the report, agroindustries have not been developed and farmers do not have access to markets. The low farmer participation in the credit program is an indicator that the credit program is not providing the incentive intended to alternative cropping, one of the major project objectives. It seems clear the Mission needs to play a more active role in project monitoring. See Appendix II for the complete text of USAID/Bolivia's comments.

Office of the Inspector General
 Office of the Inspector General
 August 29, 1990

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INTRODUCTION

Background

A.I.D. has been encouraged by legislation to develop programs and projects to help reduce illicit drug-crop cultivation by providing incentives for alternative sources of income generation. The Chapare Regional Development Project was authorized in 1983 with the goal to encourage the reduction in the cultivation and illicit trafficking in coca through the achievement of balanced economic development and an enhanced standard of living in the Chapare region.

The Project consisted of three components: (1) agricultural and forestry production (2) agribusiness development and (3) project administration/institutional development. The Project complements the Government of Bolivia program which encourages farmers to eradicate coca by offering \$2,000 per hectare eradicated through promotion of alternative crops, credit and social infrastructure programs to farmers eradicating their coca planting.

In 1987, the Project was amended to expand development activities outside the Chapare and into an area called the Associated High Valleys. This was done to provide incentives to farmers and laborers, who had migrated to the Chapare, to return to their high valley homes and end their involvement in coca production.

The Government of Bolivia's Office of Programs for Alternative Regional Development has the primary responsibility for administering and overseeing project activities.

To assist the eradication effort, the Bolivia government passed the coca and controlled substance law of 1988 to implement the time-phased elimination of coca production in most of the Chapare region leaving only a small area of the Chapare and one other traditional coca growing area available for legal coca production. Sometime after 1993 all but these two areas will be considered illegal for the growing of coca.

Although increased interdiction efforts have substantially lowered the price of coca in the region and increased the voluntary eradication of coca the Project has made less than expected progress in the Chapare region, in part, because needed infrastructure and markets have not been adequately developed. In addition, the credit component has not been readily accepted by targeted farmers.

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To evaluate the performance of the various entities' receiving funding under the Project, the Mission contracted the services of a certified public accounting firm to conduct on-going non-Federal financial audits for a three year period. Six audit reports have been issued for the year ended December 31, 1989 (see Appendix II) and another six audit reports for the year ended December 31, 1990 are in the draft stages.

The following photos show coca production in the transitional zone of the Chapare region of Bolivia. Sometime after 1993 coca production in this area will be illegal.



Typical small farmer coca field



Coca leaf drying process



Bagging dried coca leaves

As of December 31, 1990 USAID/Bolivia had obligated \$26 million in grant funds and \$12.5 million in loan funds with expenditures of \$15.7 million and \$11 million, respectively. In addition, the Government of Bolivia had programmed another \$34.7 million, \$32 million from PL 480 proceeds and \$2.7 million from the Government of Bolivia Treasury. The Project is to be completed by August 31, 1991; and a carry-on project is being planned.

Audit Objectives

The Office of the Regional Inspector General for Audit/Tegucigalpa, audited USAID/Bolivia's Chapare Regional Development Project to answer the following audit objectives:

1. Did USAID/Bolivia provide the Chapare region the infrastructure needed for alternative crop development?
2. Did USAID/Bolivia follow A.I.D. established systems to ensure adequate project planning?
3. Did USAID/Bolivia have a system to ensure the coordination of project activities between implementing organizations?
4. Did USAID/Bolivia have a system to ensure that the objectives of the agricultural credit component of the alternative crop program were being achieved?
5. Did USAID/Bolivia establish a system to provide reasonable assurance that Project commodities were properly utilized and controlled in accord with A.I.D. requirements?
6. Did USAID/Bolivia follow established systems to monitor Project activities?
7. Did USAID/Bolivia establish a system to assure that the Government of Bolivia was meeting its counterpart funding requirements?

In answering these audit objectives, we tested whether USAID/Bolivia (1) followed applicable internal control procedures and (2) complied with certain provisions of laws, regulations, agreements, and contractual obligations. In addition, we relied and expanded upon the findings of the non-Federal audits being conducted on the entities receiving funding under the Project.

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/Bolivia, the GOB and/or project implementing organizations 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/Bolivia, the GOB, and/or implementing organizations were not following a procedure or not complying, in any significant manner, with a binding requirement,
- to identify the cause and effect of the problem noted, and
- to make recommendations to correct the condition and cause of these problems.

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

REPORT OF AUDIT FINDINGS

Did USAID/Bolivia provide the Chapare region the infrastructure needed for alternative crop development?

Infrastructure activities had not been provided to the extent planned in the project paper due to a 1986 A.I.D./Washington directive. The impact on farmer acceptance of alternative cropping systems, and the establishment of agro-industries had not been evaluated.

Development of the Chapare region was based on the premise that local farmers would switch from coca to alternative crop production because of extensive coca interdiction efforts and because of improved market access and opportunities created by newly developed agro-industries. A.I.D./Washington, however, decided to stop implementation of planned infrastructure activities, i.e. road rehabilitation and maintenance and electrification. The extent this decision hindered Project progress in alternative crop production is not known.

More Infrastructure Development is Needed for Alternative Crop Production in the Chapare

Although the need for roads and electricity in the Chapare was recognized by A.I.D. in its Project Paper as a prerequisite for a successful alternative crop program planned development did not occur. A.I.D./Washington decided in 1986, to curtail planned infrastructure activities because of the potential that those improvements might also be assisting narcotics traffickers. In late 1990, A.I.D./Washington reversed this decision, nevertheless this action delayed progress in establishing alternative cropping by as much as three years, agro-industries have not been developed, and farmers do not have ready access to markets. With the reduced level of narcotic activity in the Chapare there is no longer the overriding concern about improvement assisting narcotic traffickers.

Recommendation No. 1: We recommend that USAID/Bolivia plan for increased levels of infrastructure activities within the Mission's Alternative Development Program.

The goal of the Chapare Regional Development Project was to encourage the reduction in the cultivation and illicit trafficking in coca through increased

interdiction efforts and through the achievement of balanced economic development and an enhanced standard of living in the Chapare region. This strategy was based on the then prevailing view that success in reducing coca cultivation depends on effective eradication and interdiction by the Government of Bolivia which increases the farmer's awareness and acceptance of economically viable alternatives, such as those to be developed under the Chapare project. The U.S. Government has come to realize that continuing strong interdiction and eradication measures are a given for any alternative development effort.

During the initial stages of the Project A.I.D. realized that an effective coca-control program could not be accomplished without concurrent regional development activities. This required adequate infrastructure for the region. To facilitate the attainment of its objectives the Project was amended, in 1985, to include an electrification component to provide economical and reliable electrical power which would serve as a catalyst for agro-industrial development. In addition, A.I.D. planned to upgrade approximately 260 kilometers of roads in the Chapare under the Rural Roads II Project to assist in the development effort.

Our review found that because of the A.I.D./Washington imposed restriction on project funded infrastructure, electricity was not available and very few all-weather roads existed, thereby making it difficult if not impossible to attract new agro-industries to the region. Interviews with local farmers confirmed their need for roads to access markets which would include agro-industries utilizing their crops. Without adequate roads, alternative crops cannot be economically transported to markets leaving farmers without incentive to join the program. Moreover, without electricity, agro-industries cannot be established thereby denying farmers of yet another market for their products.

The lack of infrastructure in the Chapare can be attributed to a decision made in 1986 by A.I.D./Washington to curtail such activities in the area because of the potential for their use by drug traffickers. We were told the Project's alternative crop component may have been set back as much as three years because of that decision.

However, the interdiction efforts in the area have been sufficiently effective, to change the area to one that is no longer controlled by drug traffickers. Thus there is a much diminished market for their coca as evidenced by the current low price for coca in that region--in early 1991 the price was approximately \$26 per 100 lb. bag versus the \$600 per bag several years earlier. As a result, more and more farmers have shown a willingness to eradicate their coca plantings, but before more extensive participation in alternative cropping can be expected they need assurances they will be able to market the alternative products they are now being asked to grow.

Without roads and electricity this becomes very difficult. A November 1990 evaluation, stated that "If USAID is serious about improving the agricultural and forestry sectors of the region it must also improve the transportation system." This is especially relevant considering we were told that a majority of the farmers in the Chapare live three kilometers or farther from a road.

In summary, if USAID/Bolivia intends to successfully implement its Alternative Development Program it must provide increased levels of infrastructure activities. In the draft follow-on Project Paper USAID/Bolivia plans to make available \$5 million annually for the improvement of farm-to-market roads selected on the basis of marketing potential criteria. An electrification project is also being considered by the Mission.

Management Comments and Our Evaluation

USAID/Bolivia disagreed with our premise that there was a decrease in narcotic activity in the Chapare and therefore believed any improvements in the area's infrastructure would continue to benefit narcotic traffickers.

Our statement on the reduced level of narcotic activity in the Chapare was based on improved accessibility to the area and the substantial lowering of the price of coca because of increased interdiction efforts. Because of these recent developments, we believe that a renewed emphasis on planning infrastructure activities is appropriate.

The Mission stated that it would submit a comprehensive response to the recommendation at a later time, as a result Recommendation No. 1 is unresolved.

Did USAID/Bolivia follow A.I.D. established systems to ensure adequate project planning?

USAID/Bolivia did not have a system in place assuring the submission of annual subproject plans in a timely manner and did not ensure that annual plans contained the input of technical assistance personnel.

Annual plans for subprojects implemented under the Chapare Regional Development Project are the responsibility of the Government of Bolivia Office of Programs for Alternative Regional Development. In accordance with Grant Agreement terms, annual plans were to be completed and presented to USAID/Bolivia for approval in December in order that subprojects could start at the beginning of the new calendar year. In addition, it was expected that the technical assistance contractor would have input into these plans prior to being presented to USAID/Bolivia for approval. Our

review noted that annual plans were submitted late for calendar year 1991 without full technical assistance input.

Annual Subproject Plans Should be Timely and Contain Technical Assistance Input

The annual planning cycle for the Chapare Regional Development Project (Project) coincides with the GOB budget cycle which is on a calendar-year basis. Because of this, USAID/Bolivia required the submission of their annual plans prior to the start of a new calendar year. Moreover, the contract with Development Alternatives Incorporated required that the technical assistance contractor assist in the design and preparation of the Government of Bolivia subprojects and annual plans. Nevertheless, the annual plan for calendar year 1991 was submitted in January, not approved until April, and prepared without full participation of all members of the technical assistance team. Delays also occurred because some subproject plans lacked sufficient detail necessitating re-submission. Plans were not submitted on time and lacked full technical assistance input because USAID/Bolivia did not adequately monitor and enforce the planning process. In some cases the effectiveness of the subproject activities was adversely affected because the subprojects could not be implemented as planned.

Recommendation No. 2: We recommend that USAID/Bolivia:

- 2.1 establish a timetable and guidelines for the preparation of Project annual plans such that the plans include detailed subproject plans, and are completed and approved prior to the start of the calendar year; and**
- 2.2 ensure that contractor technical assistance input is included in the annual plan by requiring this input in the guidance provided for the preparation of the plan.**

The Project Grant Agreement Amendment No. 7 requires that annual plans for subproject activities be prepared by the Government of Bolivia Office of Program for Alternative Regional Development (Alternative Development Office) and submitted to USAID/Bolivia for approval. Amendment No. 7 to the Grant Agreement also requires that these plans be submitted to USAID/Bolivia by December 15 for approval so they may be implemented the following calendar year. Since the plans encompass or envision a level of effort of one year, they should be approved prior to January 1 so that the subprojects planned have an opportunity to be completed within that time frame.

We found that annual plans were not being approved as required and that they lacked the detail necessary for timely implementation of the subprojects. For example, the 1989 plan was not approved until March 13, 1989, the 1990 plan until February 15, 1990, and the 1991 plan until April 4, 1991. Furthermore, because some plans did not contain the specifics necessary to immediately initiate the subprojects, additional reviews by USAID/Bolivia were required. As a result, in 1990, 21 of the 43 planned subprojects were not approved until June or later, i.e. 49 percent of the planned subprojects had approximately six months or less to complete what should have been a twelve-month effort.

Although USAID/Bolivia had specified in Grant Agreement Amendment No. 7 that annual plans were to be completed and submitted for approval by December 15, no written guidance had been given to the Alternative Development Office on how the 1991 plan was to be prepared or what it should contain. A.I.D. Project management told us they expected the Alternative Development Office to use the 1990 annual plan as a guide to prepare the 1991 plan; however, the Alternative Development Office was not made aware of this. In addition to being submitted late (January 1991), it had taken the Alternative Development Office planners approximately three months to prepare and was still unacceptable to USAID/Bolivia for various reasons such as inadequate detailing and poor subproject selection. Further, during that three month period, the Alternative Development Office technicians had considerable effort diverted to planning rather than the supervision of ongoing subprojects. A.I.D. Project management had been apprised of this situation but did not take corrective action.

Rather than provide written guidance to the Alternative Development Office on development of the annual plans, the Mission went through an extensive joint planning process with the Alternative Development Office and the Subsecretariate for Alternative Development prior to submission of the calendar year 1990 and 1991 plans. The Mission indicated that this approach was chosen given the sensitive political relationships between the Subsecretariate and the Alternative Development Office and similarly with the Mission and its contractors. With regard to the contractors, the Mission stated that although several of the contractors had good individual relationships with Bolivian implementers, the team's overall relationship was not good. The Mission indicated that it felt the blame for this situation rested equally with the Alternative Development Office and the contractors. In order to remedy this situation, USAID/Bolivia chose an informal, more collaborative approach to developing the annual plans, rather than a formal written approach which it felt might be viewed as confrontational.

Thus, in the fall of 1989 the Mission's agricultural officer, program officer, controller, project officer, and Deputy Director met in Cochabamba for two days with the Alternative Development Office staff to review the process to

be followed for developing the calendar year 1990 plan. Subsequently, members of these offices and the technical assistance contractor worked in Cochabamba developing the plan which was submitted in draft on December 15, 1989 and approved February 15, 1990 by the Mission.

In the fall of 1990, the Mission controller met in Cochabamba with the Alternative Development Office to review plans for presentation of the calendar year 1991 plan. It was suggested that the process followed for the 1990 plan be repeated for the 1991 plan to which the Alternative Development Office agreed. However, in late October, the Mission began to receive reports from the technical assistance contractor that they were not being requested to participate in development of the plan. When this was discussed with the Alternative Development Office they advised the Mission that they wished to prepare a first draft, which would be completed in early November, prior to sitting down with the technical assistance team and the Mission. The Mission saw no reason not to agree to this request. With hindsight, the Mission acknowledged this was the wrong decision since submission of the first draft was delayed several times until late November. Although the Mission attempted to refine this draft and another submitted in December, a final draft of the plan was not presented until April 4, 1991. The Mission felt that no further benefit would be gained from additional work on the plan, and it was partially approved.

Effectiveness of the planned subprojects has been adversely affected during 1990 by the delays in implementation. For example, genetic material required for planting prior to the start of the rainy season was unavailable because funding had not been approved in time. Also, farmer attendance at training classes was diminished because classes had to be given during the harvest season when many farmers were unavailable. Coordination between various subprojects was minimized because not all subproject plans were approved at the same time as envisioned by the planners. We believe that subproject activities will be more efficiently implemented if USAID/Bolivia establishes a timetable requiring the preparation and approval of the annual plan, which includes the detailed subproject plans, prior to the start of the calendar year. However, USAID/Bolivia should provide clear guidance for the preparation of these plans.

Development Alternatives, Incorporated (the Contractor), was contracted to provide technical assistance to the various subproject activities of the Project. As part of its effort, the Contractor was to assist in the design of the subprojects--an essential part of the annual planning process.

The Contractor's scope of work specifically states that the Contractor will provide advice in the design, implementation and management of the Project's activities. It is A.I.D.'s responsibility to see that the Contractor fulfills the terms of its contract; in this case, input into the design of

subprojects. For 1990, the Contractor team wrote major portions of the annual plans for the Associated High Valleys because of a substantial change in the Alternative Development Office personnel in late 1989. However, the 1991 annual plan was prepared almost entirely by the Alternative Development Office personnel with very little input by the Contractor team. For example, of nine areas covered by the plan, the Contractor had limited input into only three. Although they had requested full inclusion into the planning process, some technical assistance personnel were almost completely excluded. The 1991 annual plan did not meet USAID/Bolivia standards. USAID/Bolivia, after receiving the Alternative Development Office's plan, requested the Contractor's review and suggestions for revision before final approval by A.I.D. This further delay could have been avoided if USAID/Bolivia had established a control system that would have ensured the Alternative Development Office planning activities were supervised properly and included the technical assistance contractor's input at the beginning of the planning process.

In summary annual subproject plans need to be submitted more timely and contain the input of the technical assistance contractor.

Management Comments and Our Evaluation

The Mission stated that we did not recognize its efforts to assist the project implementating agencies develop their 1991 annual operating plans. In addition, it stated that ongoing subproject activities continued without interruption even though the 1991 Operational Plan had not been formally approved.

Our finding does not focus on the Mission's efforts in assisting the implementating entities in the preparation of annual plans but rather on the efficiency of the Mission's system to assure that project implementation plans are submitted in a timely manner and contain sufficient technical detail to ensure their implementation. The Mission needs to provide guidelines and establish an appropriate timetable for the preparation of annual plans. The Mission's monitoring of annual plan preparation within established timeframes should allow for any necessary changes prior to the new calendar year startdate. This would also eliminate lengthy delays in starting new subprojects.

The Mission stated that it would submit a comprehensive response to the recommendation at a later time, as a result Recommendation No. 2 is unresolved.

Did USAID/Bolivia have a system to ensure the coordination of project activities between implementing organizations?

USAID/BOLIVIA did not establish a system to ensure project coordination. Project infrastructure development activities were not coordinated with the United Nations Development Program (the UN Program) and subproject activities were not coordinated between implementing agencies. Road improvement continued in the Chapare under the auspices of another donor even though A.I.D. had stopped similar activities because of the potential assistance such projects might provide to narcotics traffickers. Also, subproject coordination had been identified as a problem, however, USAID/Bolivia did not take action to resolve the problem.

Project Coordination Needs Improvement

A.I.D. Handbook 3, Chapter 8 states that coordinating the actions of the host government, A.I.D. and other donors is a function of project management. Coordination helps avoid duplication of effort, inter-institutional competition and a unified strategy in attacking developmental or other issues. USAID/Bolivia did not coordinate its infrastructure activities of the Chapare with other donors and subproject implementing organizations did not coordinate their efforts because a system had not been established ensuring coordination. As a result, A.I.D. strategy to limit assistance to narcotics traffickers was negated and subproject implementation has been disjointed and less effective than anticipated.

Recommendation No. 3: We recommend that USAID/Bolivia:

- 3.1 coordinate its infrastructure activities (i.e. roads and electricity) with other donors at the project level; and**
- 3.2 include in the Mission system of project planning and/or monitoring a requirement for periodic coordination meetings to be attended by all subproject implementing organizations.**

A.I.D. Handbook 3, Chapter 8, states that project management needs to coordinate actions with host country entities, A.I.D. and other donors.

Our review found that USAID/Bolivia did not coordinate with other donors on road rehabilitation in the Chapare region. In 1986 A.I.D./Washington made a decision to curtail infrastructure activities in the Chapare because of the potential assistance to narcotics traffickers. It was believed the improvement of roads would provide easy access for drug trafficking

especially when roads could be used as landing strips for light aircraft. USAID/Bolivia had initially planned the rehabilitation of 260 kilometers of secondary roads. The decision to stop road rehabilitation was part of the U.S. Government's overall strategy to cut drug production in the Chapare. At that time, the decision was apparently appropriate because drug trafficking was prevalent in that area. However, road rehabilitation did not stop because in 1989-90 the UN Program continued to rehabilitate 208 kilometers of roads; some of which were the same roads A.I.D. had decided not to rehabilitate.

The Mission was not aware of the UN Program activities because the Mission did not coordinate with other donors implementing projects in the Chapare. The UN Program representative informed us that he had never been contacted by the Mission to learn what the UN Program's plans were for the Chapare. The UN Program dealt directly with the Bolivian Government coordinating body, the Alternative Development Office, which is also the coordinating organization for USAID/Bolivia Chapare Regional Development Project. However the Mission did not discuss other donors' plans with the Alternative Development Office. As a result, the effectiveness of A.I.D. assistance to the drug interdiction effort may have been impaired.

Coordination with other donors remains an issue to be addressed. Because substantial progress has been made in the area of drug interdiction in the Chapare it is now time for A.I.D. to change its direction and once again start implementing infrastructure activities. To effectively do this USAID/Bolivia must coordinate with other donors doing work in the Chapare. For example, in addition to roads, the UN Program is also planning a \$6.9 million electrification project in the Chapare. Because of the importance of electrification in the Chapare and A.I.D.'s plans in this area coordination will be essential.

In the fall of 1990, USAID/Bolivia developed a comprehensive alternative development strategy which deals with USAID/Bolivia counternarcotics efforts at both the national level as well as the project level. Subsequently USAID/Bolivia provided advice to the Government of Bolivia on the articulation of its own alternative development strategy. The Government of Bolivia's document was presented to the Paris Donor's Consultative Group meeting and according to the Mission, resulted in an increased level of donor funding pledges.

Subsequently, the Donor community in Bolivia agreed to form a working group to coordinate and deal with alternative development activities. This group is currently being organized and the Mission considers such effort a success since the Donor community had traditionally viewed

counternarcotics activities solely as a United States concern. This working group once organized may provide the forum needed for better donor coordination.

Not only has there been a lack of coordination between donors but also a lack of coordination between subproject implementing agencies. This was identified as a problem as early as April 1990. Two 1990 technical assistance contractor quarterly reports to A.I.D., stated that the Alternative Development Office was not fulfilling its role of subproject coordinator. The issue had also been discussed by USAID's assistant regional coordinator on December 21, 1990 at an evaluation seminar regarding the Alternative Development Office activities. However, at the time of our audit in February 1991 no action had been taken by USAID/Bolivia to correct the situation.

Coordination meetings with subproject implementing agencies would minimize duplication of efforts and increase the effectiveness of project implementation. For example, subprojects using printed educational material produced by a different organization need to coordinate their activities in order to have the proper material available at the right time. In addition, if several organizations are working in the same village or area care should be taken not to overtax the resources of that area--coordination is the answer. USAID/Bolivia needs to ensure that the Alternative Development Office fulfills its role as project coordinator by including in the Mission's system of project planning and monitoring a requirement for coordination through periodic meetings by subproject implementing organizations.

Management Comments and Our Evaluation

The Mission stated that it would submit a comprehensive response to the recommendation at a later time, as a result Recommendation No. 3 is unresolved.

Did USAID/Bolivia have a system to ensure that the objectives of the agricultural credit component of the alternative crop program were being achieved?

USAID/Bolivia had not established a system to assure that the objectives of the Project's loan component were being achieved. The credit component of the Project was established to provide an incentive and means for farmers eradicating coca to participate in the alternative crop program. However, as of December 31, 1990 only ten percent of eligible farmers were currently participating in the project's credit component. The PL 480 Executive Secretariat had advised the Mission of several reasons affecting

interest in the credit program. These included the \$2,000 cash payment for eradication received by the farmers, the fact that farmers eradicated and left the Chapare, the high interest rate, and the lack of legal documentation. Although these reasons are likely, the Mission had not determined exactly why farmers were not participating in the credit program. One factor identified by the audit but unknown to Mission management was that, for credit eligibility, a farmer could not live farther than three kilometers from an all-weather access road. Also, delinquency rates for loan repayments were high.

Credit Component Needs a Thorough Review

The Project Grant Agreement expected farmers eradicating coca to make use of available credit to participate in the alternative crop development program. But, farmer participation in the credit component has been disappointing and there have been high delinquency rates on those loans made. Stringent credit eligibility requirements and inadequate review of farmer ability to repay loans have contributed to the lack of participation and high delinquency. As a result, only a small number of farmers are participating in the credit program.

Recommendation No. 4: We recommend USAID/Bolivia ensure that a written credit eligibility policy for the Project's credit component which considers farmers' individual needs, i.e. their ability to repay, is established and implemented.

The objective of the Project's credit component as discussed in the Project Paper was to develop a viable self-sufficient financial system in the Chapare which would channel savings to their most efficient use in that region. A.I.D. Project Implementation Letter No. 67 made \$17.5 million of Government of Bolivia-owned local currency available to support such credit activities. These credit funds would allow farmers to modify and improve their agricultural and forestry production systems while facilitating their transition from coca-related activities to legitimate economic alternatives.

It was originally expected that one major bank and several intermediate banking institutions would implement the credit component. However, the banks decided not to participate and alternatively it was decided that the Bolivian Government PL 480 Secretariat would implement the credit component. Originally, this credit component was tied directly to the coca-eradication program, whereby farmers were not allowed access to credit until they provided proof that they had eradicated a portion of their coca production, i.e. a certificate from the Bolivian Government Agency in charge of verifying coca eradication.

As of December 31, 1990 over 10,000 farmers had received coca-eradication certificates, but only 1,010 loans had been approved by the PL 480 Secretariat. USAID/Bolivia personnel could not document why 90 percent of the eligible farmers were not participating in the credit program.

The PL 480 Secretariat had established a credit eligibility requirement that only farmers living within three kilometers from an access road would qualify for credit. The Loan and Grant Amendment No. 12, required A.I.D. approval for any condition imposed regarding the access of credit. However, USAID/Bolivia was not aware that this credit restriction had been added by the PL 480 Secretariat. In fact, the Secretariat's credit program was operating with several conditions or guidelines not approved by A.I.D. It is likely that greater oversight by A.I.D. would have identified this situation.

On December 19, 1990, Amendment No. 18 to the Grant Agreement waived the requirement for coca eradication as a prerequisite for credit. This was done to also allow farmers, who had never grown coca, access to the credit. However, at the time of our audit, nothing had been done to finalize the procedures for these loans. As a result, no loans had been issued to farmers who had not eradicated coca.

Also associated with the credit component of the Project was a high rate of delinquency on loan repayments--approximately 50 percent. Repayments for debt service were partially based on the sale of coca (farmers were only required to eradicate a minimum of 10 percent of their coca). The collapse of coca prices greatly reduced farmer cash flows and their ability to repay the loans. This delinquency rate can be partially attributed to the inadequate determination of the farmer's ability to repay and an apparent misinterpretation as to what was meant by the loan agreement term "grace period". Two farmers we interviewed were confused by the term and thought it meant no payments for that period, whereas in fact it meant that interest payments were required. In addition, we were told interest rates were too high (13 percent) and loan repayment terms were too inflexible, possibly contributing to the delinquency rate.

With few loans, high interest rates, high delinquencies, and restrictive eligibility requirements, the credit component has not provided the intended incentive to alternative cropping. As of November 1990 only \$5.2 million of the \$17.5 million had been given out in loans. Farmers without credit may find it difficult to purchase alternative crop material to replace their coca. Without access to replacement crops and markets for those crops farmers are less likely to voluntarily reduce their production of coca--a primary goal of the Chapare Regional Development Project. Moreover, the successful interdiction efforts to lower the price of coca in the region will not be maximized. The Mission in their draft follow-on Project Paper has

recognized the problem of credit. For example, the draft Project Paper states that credit - worthiness will be determined by farm plans which will take into account total farmer income and repayment prospects. While more needs to be done in establishing a viable and effective credit program this process will address our primary audit concern.

Management Comments and Our Evaluation

The Mission stated that the cause and effect of low farmer participation in the agricultural credit program was overstated in the report. They concluded that loans had been given to all qualified farmers who wanted loans. However, they recognized that the farmer's need for credit in general, as well as Project supplied credit, had not been established. Because of high delinquency rates for agricultural credit in Bolivia the Mission believed it was prudent to be cautious in providing credit to Project farmers.

We agree that caution is necessary in providing agricultural credit; however, during our review no data was available as to why only 10 percent of eligible farmers had received loans. Moreover, the Mission's statement that the farmer's need for credit had not been established seems in conflict with their setting aside \$17.5 million in local currency for Project credit. We believe the Project's credit component needs to be reviewed if Project funds are to be effectively used.

The Mission stated that it would submit a comprehensive response to the recommendation at a later time, as a result Recommendation No. 4 is unresolved.

Did USAID/Bolivia establish a system to provide reasonable assurance that Project commodities were properly utilized and controlled in accord with A.I.D. requirements?

Although USAID/Bolivia did establish a Project commodity inventory control system as evidenced by their development of an inventory control manual and a training seminar on its use, the system was not complete because the Mission had not verified that these inventory controls were being implemented. In fact, the control system was not being used and commodities were not being adequately controlled or accounted for. In addition, we noted that some Project-funded commodities were being used for Mission, not Project purposes and were not recorded in Mission records.

Project Commodities Need Better Management

A.I.D. procedures require that Missions establish and maintain systems that ensure project commodities are adequately accounted for, controlled, and utilized. USAID/Bolivia Project management did not ensure that the inventory control system designed for the Project had actually been implemented. Moreover, USAID/Bolivia used Project funds to purchase furniture and equipment for its own use--a non-Project purpose--and did not record these purchases to Mission records. Mission Operating Expense funds should have been used for these purchases. As a result, Project commodities were not being properly accounted for and controlled and Project funds had been used for unintended purposes.

Recommendation No. 5: We recommend that USAID/Bolivia:

- 5.1 establish a Project commodity-control system which includes implementation verification. Specifically, the inventory control manual designed for the Project contains certain procedures--the control system should also contain provisions to verify that the manual's procedures are being followed by each of the Project's participating organizations; and**
- 5.2 identify Mission property purchased with Project funds, refund their cost to the Project, and ensure that such property is posted to Mission accountability records.**

A.I.D. Handbook 15, Chapter 10 requires that A.I.D. Missions establish and maintain systems to adequately control and account for project commodities.

The Project Agreement further states that the Government of Bolivia will maintain, or cause to be maintained, adequate books and records relating to the Project and to the Agreement to show the receipt and use of goods and services acquired under the assistance. A.I.D. Handbook 15 also states that commodities financed under project agreements be effectively used for the purpose for which the assistance was made available.

We found that USAID/Bolivia did not have an adequate system to provide reasonable assurance that Government of Bolivia implementing organizations had established adequate inventory-control systems for Project commodities.

Recognizing the potential for problems with Project commodity inventories, USAID/Bolivia had designed an inventory-control manual for Project use. The manual was issued to all Government of Bolivia implementing

organizations, and training seminars were conducted with tours of USAID/Bolivia warehouses. A review of several implementing organizations revealed the manuals were not being used and inventory controls were lacking.

The project controller for the Government of Bolivia road construction agency, acknowledged that she had received the manual and attended the seminar, however, she could not produce a copy of the manual. A check of their inventory controls showed weaknesses. For example, twelve 55 gallon drums of motor oil were stored in an unsecured area outside the warehouse, a transfer of eight tires from the warehouse was not posted to the inventory control card until 55 days later, receiving reports were not prepared and, in general, poor housekeeping was noted in the warehouse.

At the Regional Alternative Development office, the general services officer stated she was not aware that an inventory control manual had been issued but was following her organization's internal procedures. A review of this system disclosed that discrepancies found during physical inventories were not posted to their inventory control cards and that a formal discrepancy report was never submitted to management. In addition, office furniture and equipment, including a computer valued at approximately \$8,000, had been provided to the USAID/Cochabamba regional office without any record of these transfers posted to the inventory.

At the third Government of Bolivia implementing organization, a research center, officials told us they had received the inventory control manual and were using it. However, we observed that the warehouse was accessible to unauthorized personnel, four tires received 45 days previously were not yet posted to the inventory, and reports were not prepared on physical inventories performed. We also found two plows, valued at \$4,224 received more than three years ago that had never been used or even assembled. We were also told that no tractors large enough to use the plows were available, so they could not be used at this project site. According to Government of Bolivia project officials, USAID had been made aware of this situation verbally. We were also told the plows could easily have been used by larger tractors. There are, however, no such tractors in any other element of the Project. Nevertheless, the plow frames, stored outside, were rusting.

Periodic review of inventory controls by USAID/Bolivia would probably have been sufficient to prevent these conditions and, at the same time, assist Government of Bolivia implementing organizations regarding any inventory control inadequacies they might be experiencing. Weakness in inventory control was also noted within USAID/Bolivia. For example, radio communication equipment valued at \$108,000 was received by USAID personnel in mid 1990. As of February 28, 1991 a receiving report had not

yet been prepared. USAID management stated it was not prepared because of the urgency to install the equipment. Receiving reports are required by the inventory control manual because they are an essential step in assuring that the US Government only pays for what it receives.

We also found that commodities purchased with Project funds were not always used for Project purposes. For example Project-funded office furniture and equipment valued at \$22,563 was purchased for the USAID's Office of Special Projects. These items, including typewriters, computers, adding machines, desks, chairs and a conference table, were located and being used at the USAID/Bolivia Mission in La Paz. Such items should be procured with Mission Operating Expense funds. Further, these items were not recorded or posted to any inventory -- neither the Project's nor the USAID's. And, although these items were purchased between April 1988 and January 1989, they had never been counted during periodic physical inventories or reported as a discrepancy.

In summary, although USAID/Bolivia had designed an inventory-control system for use by Project implementing organizations, USAID Project management did not ensure, by periodic verification, that the system had been implemented. USAID/Bolivia also inappropriately used Project funds to purchase Mission furniture and equipment because of a shortage of Mission Operating Expense funds. As a result, Project commodities have not been properly accounted for, controlled, or utilized, and Project funds were used to cover a short-fall in Mission operating funds.

Management Comments and Our Evaluation

USAID/Bolivia concurred with the validity of the identified \$22,563 in commodities procured inappropriately.

The Mission stated that it would submit a comprehensive response to the recommendation at a later time, as a result Recommendation No. 5 is unresolved.

Did USAID/Bolivia follow established systems to monitor Project activities?

Although a monitoring requirement had been established, Project activities were not being adequately monitored by USAID/Bolivia.

USAID/Bolivia Mission Order 3-6, dated October 18, 1989, required each project to have a Monitoring and Evaluation Plan. It was the responsibility of the project officer and/or Mission evaluation personnel to develop this plan to include a core list of performance indicators on which data could

be collected at regular intervals. Such a plan had not been developed for the Chapare Regional Development Project. As a result the Project had not been monitored in a systematic manner to identify and act upon problems as they arose.

Project Monitoring Needs Substantial Improvement

The Project Officer is responsible for monitoring virtually every aspect of project implementation. However, a number of required monitoring duties were not performed. These included the gathering of timely information on inputs, outputs and actions for the purpose of identifying and addressing problems and significant issues. According to the Project Officer he was constrained from performing these duties because of a heavy workload, including coordinating numerous tours (on the average once every eight days in 1989-1990) to the Project site for special interest groups (i.e. Congressional teams, private enterprise organizations and A.I.D./W officials) and assisting in the design of a \$120 million follow-on project. Without proper monitoring, USAID/Bolivia could not detect and resolve problems in a timely manner.

Recommendation No. 6: We recommend that USAID/Bolivia, for the remainder of the life of the Project, develop and implement a system to monitor and evaluate the Project in compliance with Mission Order 3-6.

Monitoring requires the timely gathering of information regarding inputs, outputs and actions that are critical to project success and the comparison of such information with plans and schedules for the purpose of alerting A.I.D. and others about potential implementation problems. It is the A.I.D. Project Officer's responsibility to know the project plan and when project activities are departing from their intended course, thereby having the information needed to make decisions on corrective actions.

This need for a monitoring system was re-enforced by USAID/Bolivia Mission Order 3-6, dated October 18, 1989, requiring each project to have a Monitoring and Evaluation Plan. However, this plan had not been prepared for the Chapare Regional Development Project. Nevertheless, the Mission had taken some corrective actions on problems once identified although admittedly using informal monitoring efforts.

The Project Manager and his Bolivian deputy, usually in the company of other mission personnel and various official visitors, made frequent trips to the project sites. According to the Mission the nature of such visits made it difficult to obtain much in the way of negative information; however, they stated that when problems were noted actions were sometimes taken. For example, suggestions for more environmentally

sound drainage structures on the road to the associated high valleys were made and instituted, implementing agencies were repeatedly requested to do more in watershed protection, and efforts were made to extend the stone paving on road construction in the associated high valleys at a time when the collapse of coca prices underscored a need for immediate legal employment.

Some conditions caused by inadequate monitoring have been already presented in the previous findings. However, we noted additional cases where the need for improved monitoring was evident. For example, USAID/Bolivia was not aware that credit to farmers was being restricted because of their living three kilometers from an access road. We also noted a situation where-by a Bolivian non-governmental organization had been contracted at \$140,000 annually and renewable for three years, to publish educational materials for use by other subprojects. But, it had been determined by both Bolivian and U.S. technicians that the materials were substandard in quality and of little use to the Project. Also, an internal evaluation was conducted by the Alternative Development Office in September 1990, confirming the overall poor quality of the firm's work. However, the evaluation was rejected by the Alternative Development Office Director. Project management informed us that this firm's contract would probably not be approved for inclusion in the 1991 annual subproject plan-not a timely response, given A.I.D. knowledge of the problem at least as early as May 1990. In the meantime, other subprojects have not had the badly-needed and useful publications.

Another monitoring deficiency involves contractor reporting. In one instance, for example, Project office files disclosed that the most recent report for one Project contractor was September 1987. The original contract required quarterly reports be submitted to USAID/Bolivia. The contractor stated that the reports had not been prepared because a previous USAID/Bolivia Project officer had verbally waived their submission because he believed other periodic reports from the implementing agency were sufficient. It should be noted, however, that only two of these other reports could be found in USAID/Bolivia's Project files.

Current project management, realizing that this contract had never been amended to reflect the change in reporting requirements, amended the contract in November 1990, requiring reports every six months instead of every three months. Timely reporting is an essential monitoring tool and to adequately monitor this Project's complex activities, USAID/Bolivia must ensure that all reports are submitted as required.

Notwithstanding the monitoring lapses mentioned above it should be noted that the Mission recognized the magnitude and complexity of the project and the need to closely monitor the activities of the six different

implementing entities. Acknowledging its limited personnel resources available for monitoring purposes, the Mission contracted the services of Price Waterhouse, a certified public accounting firm, to conduct on-going monitoring functions of the six implementing entities over a three year period. The annual cost of these RIG/A/T supervised non-Federal audit services is over \$200,000. The auditing firm was to provide the Mission monthly progress reports along with the annual audit reports.

The first six audit reports have been issued for the year ended December 31, 1989 (see appendix II) and the six audit reports for the year ended December 31, 1990 are in the final draft stage.

As a function of using implementing entities to manage and implement USAID projects the Mission has the responsibility to assess the entities' capability to perform the assigned tasks. The findings discussed in Price Waterhouse's year-end audit reports clearly reveal the entities' lack of capability. For example, the chart below illustrates material weaknesses identified in the implementing entities. And for the years ended December 31, 1989 and 1990 the audit firm identified approximately \$400,000 and \$300,000 respectively in questioned costs.

MATERIAL WEAKNESSES IDENTIFIED IN IMPLEMENTING ENTITIES

Internal Control ^{1/}	1989						1990					
	A	B	C	D	E	F	A	B	C	D	E	F
1) Accounting system	X		X		X	X	X	X	X	X		X
2) Lack of procedures manuals	X	X			X	X	X					
3) Lack of inventory controls procedures	X		X		X	X			X	X	X	
4) Inadequate procedures to administer credit program		X		X				X				
5) Insufficient documentation and reporting for project activities	X				X	X	X		X		X	X

^{1/}

- A) Program of Alternative Development-Cochabamba/Program of Alternative Regional Development
- B) PL-480 Executive Secretariat
- C) National Service of Roads
- D) National Directorate for Agricultural Reconversion
- E) Bolivian Institute of Agriculture and Cattle Technology-Chapare
- F) Sub-Secretariat for Alternative Development and Coca planting Substitution

In addition to the weaknesses cited above, the audits conducted for the years 1989 and 1990 also identified material internal control weaknesses in the implementing entities in fourteen other areas.

For the same time period the audits identified material instances of non-compliance by the implementing entities with agreement terms, project implementation letters, and laws and regulations applicable to the Project. These material instances of non-compliance were in 12 areas. Some examples are: granting credits to unqualified farmers, not verifying that farmers had ceased cultivating coca, giving loans to farmers who did not make the required contributions, permitting the improper use of certificates of reduction, not adequately supervising loans, and noncompliance with the terms of the loan program.

The monthly progress reports submitted by the accounting firm identified numerous weaknesses in the implementing entities' management of the project. The identification of these weaknesses has assisted the Mission in overseeing project activities. However, the Mission has not always ensured that the implementing entities resolved the identified weaknesses within a reasonable timeframe. For example, inventory control weaknesses were identified as early as December 1989 in the accounting firm's progress reports, yet during our audit in 1991 (see Recommendation No.5) we identified the continued existence of inventory control weaknesses. In addition, the monthly progress report of June 1990 identified the lack of planning and coordination as a weakness of the subprojects being implemented by private non-governmental organizations. As of March of 1991, this weakness had yet to be resolved (see Recommendation No. 3).

Although USAID/Bolivia used the services of a certified public accounting firm to assist in the monitoring of project activities the Mission must recognize it cannot forego its own monitoring responsibilities. The need for a comprehensive monitoring and evaluation plan for the project as required by Mission Order 3-6, is essential if the Mission is to perform its monitoring role. Lacking such a plan the Project has not been monitored in the systematic manner needed to identify and act upon problems as they arise.

The Mission has recognized this need for systematic monitoring in the Chapare Regional Development follow-on project by programming funds specifically for Project management. Certain of these funds are designated for the procurement of technical assistance to be responsible for developing, installing and administering a project monitoring system for all project components.

The Mission needs to have such a system for the current project.

Management Comments and Our Evaluation

Although the Mission stated that RIG/A/T overstated the negative in this finding, they agreed that Price Waterhouse's audit reports revealed a lack of administrative capability on the part of the Project's implementing agencies. The Mission stated that this lack of capability would be addressed by a management consulting firm currently being contracted by the Mission for the follow-on project.

The Mission took exception to the \$700,000 in questioned costs identified by Price Waterhouse in their audits for 1989 and 1990. They stated that almost all of the \$400,000 questioned for 1989 had been supported.

Although we agree with the Mission's plans to improve the Project's administration under the follow-on project we believe the Mission needs to develop and implement a system to provide better monitoring of the current project which is scheduled to end in 1992. The questioned costs identified by Price Waterhouse were unsupported at the time the audits were conducted.

The Mission stated that it would submit a comprehensive response to the recommendation at a later time, as a result Recommendation No. 6 is unresolved.

Did USAID/Bolivia establish a system to assure that the Government of Bolivia was meeting its counterpart funding requirements?

USAID/Bolivia had established a system to monitor the Government of Bolivia (Bolivia) counterpart contributions for the Project¹. Bolivia submits quarterly reports to USAID/Bolivia on the status of counterpart contributions which are then verified by USAID/Bolivia financial personnel through periodic testing and if contributions are delayed the reasons are investigated.

The Government of Bolivia was to contribute \$34.7 million to the project, \$32 million from PL 480 funds and \$2.7 million from the Bolivia Treasury. As of September 1990, \$9.5 million had been received. Initial project delays have contributed to the slow disbursement of Bolivia funds; however, as of September 1990 Bolivia had contributed 74 percent of its required Treasury contributions and for 1991 an additional \$18 million in PL 480 counterpart funds had been planned for subproject activities. A large portion

¹ We did not evaluate the adequacy of USAID/Bolivia's system to monitor host country contributions to determine compliance with Section 110 of the Foreign Assistance Act.

of the Government of Bolivia's contribution depends on the number of loans provided to farmers. Of the \$32 million in PL 480 funds, \$17.5 million was intended for project loans. As of November 1990 only \$5.2 million had been used for farmer loans. With more farmers participating in the coca eradication program there should be an increase in credit applications in the future.

REPORT ON INTERNAL CONTROLS

We have audited USAID/Bolivia's Chapare Regional Development project for the period May 31, 1983 through December 31, 1990, and have issued our report thereon dated August 29, 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 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 seven audit objectives and not to provide assurance on the internal control structure.

The management of A.I.D., including USAID/Bolivia, 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 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, predicating 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 purpose of this report, we have classified significant internal 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. 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 judgement, could adversely affect USAID/Bolivia'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.

Audit Objective One

The first audit objective was to see if USAID/Bolivia had provided the Chapare region sufficient infrastructure for alternative crop development. In planning and performing our audit of infrastructure activities we concentrated on the development of roads and electricity for these are the basics necessary to develop small industries, markets, and ultimately convince farmers that alternative crops are a viable alternative to coca production.

We noted one reportable condition relating to the planning and implementation of infrastructure activities:

- USAID/Bolivia did not coordinate its infrastructure activities in the Chapare region with other donors.

Audit Objective Two

The second audit objective related to the establishment of an adequate project planning system. 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 relating to the planning process:

- USAID/Bolivia did not ensure that annual subproject plans were submitted and approved in a timely manner.
- USAID/Bolivia did not ensure that project plans had the full input of technical assistance contractors.

Audit Objective Three

This objective relates to the coordination of project activities between implementing organizations. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3.

We noted one reportable condition relating to the coordination of implementing organizations:

- USAID/Bolivia did not ensure that subproject activities were adequately coordinated.

Audit Objective Four

This objective relates to the effectiveness of the project's credit component. In planning and performing our audit of the credit component, we considered the applicable internal control policies and procedures in A.I.D. Handbook 3.

We noted two reportable conditions relating to the monitoring of the credit component:

- USAID/Bolivia did not ensure that credit policies were written and approved prior to implementing the credit component.
- USAID/Bolivia failed to adequately monitor the credit component, as a result credit restrictions were being implemented without USAID/Bolivia's knowledge.

Audit Objective Five

Objective five relates to the proper control and utilization of A.I.D. commodities. In planning and performing our audit of the commodities, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3, 15 and the Project Officer's Guidebook.

We noted two reportable conditions relating to the monitoring of project inventory systems and the use of project funds for purchases of commodities for non-project use.

- USAID/Bolivia did not adequately monitor the inventory systems of implementing Government of Bolivia agencies to ensure that established inventory control procedures were being followed.
- USAID/Bolivia was inappropriately using project funds to purchase commodities that should have been purchased with Mission operating funds.

Audit Objective Six

This objective relates to the Mission's project monitoring. In planning and performing our audit of Mission oversight, we considered the relevant internal control policies and procedures cited in A.I.D. Handbook 3 and Mission orders.

We noted two reportable conditions:

- USAID/Bolivia did not develop the required monitoring and evaluation plan.
- USAID/Bolivia did not adequately monitor contractor performance through the receipt and review of periodic contractor reports.

Audit Objective Seven

This objective relates to the Government of Bolivia's counterpart contribution. In planning and performing our audit of counterpart contributions, we considered the relevant internal control policies and procedures cited in A.I.D. Handbook 19.

We did not note any reportable condition for this audit objective.

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 projects funds being audited may occur and 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 under the audit objectives numbered one through six are material weaknesses.

REPORT ON COMPLIANCE

We have audited USAID's Chapare Regional Development Project for the period May 31, 1983 through December 31, 1990, and have issued our report thereon dated August 29, 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, grants 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/Bolivia's management. As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Bolivia, compliance with certain provisions of Federal laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests of compliance indicate that, with respect to the items tested, USAID/Bolivia 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 that USAID/Bolivia, had not complied, in all significant respects, with those provisions.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Bolivia's Chapare Regional Development Project in accordance with generally accepted government auditing standards. We conducted the audit from January 24 to March 1, 1991, and covered the systems and procedures relating to project activities financed by A.I.D. from May 31, 1983 through December 31, 1990. As noted below, we conducted our field work in the offices of USAID/Bolivia, at the Government of Bolivia Office of the Programa de Desarrollo Alternativo Regional, and in the offices of the technical advisors, as well as project sites in the Chapare Region and the Associated High Valleys of the Department of Cochabamba. The audit objectives did not cover the following areas:

- The audit did not determine whether qualified and eligible contractors were obtained at a fair price for the approximately \$4,592,000 in technical assistance to the Chapare Regional Development Project.
- The audit did not evaluate the research component of the project for the development of different alternative crops. Nor did we determine which alternative crops were most often used by participating farmers to determine which markets should be developed.
- Aside from reviewing the planning process for the Project's subprojects we did not evaluate the implementation of the individual subprojects.

Methodology

The methodology for each audit objective follows.

Audit Objective One

To accomplish the first audit objective, we determined through discussions with USAID/Bolivia officials, other donors, host government officials, contractors and farmers the magnitude of infrastructure development in the Chapare and the adverse effect of not having adequate infrastructure

available within the region. We reviewed project documentation for the rational of A.I.D./Washington's decision to curtail infrastructure activities.

Audit Objective Two

To accomplish the second audit objective, we reviewed requirements established by USAID/Bolivia for the planning of project activities. We then reviewed project plans submitted for their consistency in meeting established requirements. We discussed the planning process with those parties responsible for preparing and approving the plans. We discussed the effect of the planning process on actual project implementation.

Audit Objective Three

To accomplish the third audit objective, we determined what coordinating mechanisms had been established while a review of project documentation and discussions with USAID/Bolivia and technical assistance personnel revealed problems in coordination and the inability for the host government implementing organization to fulfill its role as the coordinating body for the Project.

Audit Objective Four

To accomplish this audit objective, we first determined if the roles and responsibilities for monitoring the project's credit component had been established and properly documented. We next obtained the credit guidelines from the Government of Bolivia. Through discussions with the PL 480 Secretariat we obtained the number of loans, names of recipients, number of delinquencies and amounts of delinquencies. We also visited farmers to determine their perspective on the credit program.

Audit Objective Five

To accomplish the fifth audit objective, we (1) interviewed USAID/Bolivia officials to determine their roles and responsibilities for the control of commodities and equipment purchased under the project; (2) obtained a copy of the Mission inventory control manual; (3) visited three implementing agencies to verify use of the manual; (4) tested the inventory control systems at the three organizations; and (5) at USAID/Bolivia we obtained a listing of commodities and equipment purchased with project funds, we reviewed USAID inventory records and selectively tested physical inventories.

Audit Objective Six

To accomplish the sixth audit objective, we (1) examined whether the Mission had established a mechanism to monitor, evaluate and report on project activities, (2) delineated the roles of the project officer, project committee, office directors, mission director and others, (3) interviewed project personnel on the effectiveness of the project management system, and (4) concluded whether significant weaknesses in the project management structure prevented the mission from :

- identifying potential problems and issues by gathering timely information on inputs, outputs and actions which are critical to project success and identifying implementation problems, and
- reporting on and correcting those problems.

To accomplish the above, we examined Mission Orders, action plans, organizational charts, project implementation reports and other miscellaneous project reports and correspondence.

Audit Objective Seven

To accomplish the seventh objective, we determined the level of Host Government counterpart contributions by reviewing USAID/Bolivia accounting records and comparing the figures to the counterpart requirement as indicated in project documentation. We conducted interviews with USAID/Bolivia personnel to determine reasons for any shortfalls or slow disbursements. We identified the system used by USAID/Bolivia to obtain information on the Host Government contribution and whether that system was accurate and effective. We did not evaluate the adequacy of USAID/Bolivia's system to monitor host country contributions to determine compliance with Section 110 of the Foreign Assistance Act.

In reply please
refer to MC-91/591

UNITED STATES GOVERNMENT

memorandum

DATE: July 19, 1991

REPLY TO
ATTN OF:

Garber Davidson, Acting Director

Appendix II

SUBJECT:

Revised Draft Audit Report of USAID/Bolivia's Chapare Regional Development Project

TO:

Reginald Howard, RIG/A/T

We have reviewed subject report and are pleased to see that our extensive written comments have been incorporated into this revised draft. However, due to the recognized importance of this project we felt we should respond to some of the new inclusions also incorporated into this report.

It is the Mission's opinion that this report's findings, although important, are nonetheless relatively minor given the scale and complexity of this project, and amount of funding involved - \$38.5 million in AID funds and 34.7 million in GOB counterpart. This is especially so considering our acknowledged limited personnel resources. Thus, overall we feel the report overstates the importance of these findings. More could be said about the perhaps more mundane (to this report's readers) successful implementation of the large majority of the subproject activities. Thus, while we understand the need to issue this report expeditiously, as you know we also have invested considerable amounts of staff time in this audit and believe that it is worth devoting sufficient time and effort to assure that it accurately reflects this effort.

Early this week I met with senior Mission management to plan and expedite implementation of the recommendations. We will submit comprehensive responses to each recommendation in the coming weeks.

USAID/Bolivia's comments on the revised draft:

Executive Summary, page i, paragraph 2:

The Mission feels the last sentence of this paragraph overemphasizes the negative effect of what you have assumed to be low farmer involvement in the project's agricultural credit program. Not all farmers who eradicated coca qualified for loans. Of those who qualified, not all wanted or needed loans. In addition the Mission believes that farmers in the Chapare had access to other sources of

financing, including informal sources of credit. Our conclusion is that about all the qualified farmers who wanted loans, have gotten them. Thus, this sentence misspresents what we believe to have been the actual situation.

Page 9, first paragraph

"With the reduced level of narcotic activity in the Chapare there is no longer concern about improvement assisting narcotic traffickers."

Mission does not believe that either part of this sentence is accurate. Narcotic traffickers continue to operate in the Chapare and other regions.

Page 14, first paragraph

This paragraph omits 2 key sentences submitted by the Mission in our reviewed draft audit report which stated that subproject activities continued even though the 1991 Operational Plan had not been formally approved. These sentences are as follows:

"However, permission was granted in the interim to the GOB for them to continue activities that were logical extentions of previously approved activities, pending final approval of the plan. Implementation of these activities continued without interruption."

Page 18, first paragraph

This paragraph omits our previously submitted comments which more fully describe the Mission's efforts to assist the project implementing agencies develop their annual operating plan. See page 14a and 14b of our comments.

Page 26 first paragraph and page 27 middle paragraph

As discussed in the exit conference, the Mission feels the cause and effect of low farmer participation in the agricultural credit program is overstated in this report. The farmer's need for credit in general and a greater farmer need for project supplied credit has not been established. Secondly, we believe that RIG/A/T is well aware of the notoriously high delinquency rate for agricultural credit programs in Bolivia. More specifically the Chapare area is the most conflictive agricultural region in the country, consequently credit risks and delinquency are high. Thus, care in providing credit is prudent from the project's point of view and in accepting it from the farmer.

Page 39 through 42

We are pleased to see the description of our efforts to detect and resolve the implementing agencies' administrative weaknesses through our three year non-Federal audit program. However, we feel the RIG has overstated the negative. We agree that Price Waterhouse's audit reports do reveal a lack of administrative capability. However, to resolve these administrative weaknesses which were identified through Mission efforts, the Mission is in the process of contracting a management consulting firm to strengthen the overall administrative systems of the implementing agencies. This contract is planned to be effective with the start of the follow-on project. It is also important to note that the new project will include modifications in the administrative procedures, especially in Cochabamba. We have given you a copy of this final draft project paper which has now been approved by AID/W.

We strongly disagree with the presentation of questioned costs for 1989 and 1990 (p. 40, top). For 1989 questioned costs Mission staff worked with the implementing agencies. Almost all questioned costs have been supported. Secondly, these questioned costs should have been put into the context of \$ 38.5 million in total project costs.

Finally, Mission concurs with the validity of the \$ 22,563 savings discussed on page 34.

AGENCY FOR INTERNATIONAL DEVELOPMENT

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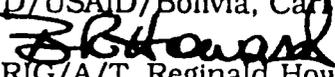
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APPENDIX III

January 30, 1991

MEMORANDUM

TO: D/USAID/Bolivia, Carl H. Leonard
FROM: 
RIG/A/T, Reginald Howard
SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the Subsecretariat for Alternative Development and Coca Crop Substitution for the Year Ended December 31, 1989

This report presents the results of a non-Federal financial audit of the Subsecretariat for Alternative Development and Coca Crop Substitution (Subsecretariat) for the year ended December 31, 1989. The audit was part of a series of six audits performed to evaluate entities receiving funding under the Chapare Regional Development Project (Project), USAID/Bolivia Project No. 511-0543. The accounting firm of Price Waterhouse prepared the report which is dated November 30, 1990.

The Project was initiated in 1983 as a part of the Government of Bolivia's program to reduce coca plantings. The Project focuses on the development of the Chapare region-Bolivia's principal illicit coca growing area. In this regard the Project is concentrated in four major areas designed to develop: (1) agricultural and forestry production, (2) rural industry and marketing, (3) a production and transport infrastructure, and (4) a Project investment fund. The life-of-project budget as of December 1989, was over \$61.0 million. USAID/Bolivia grant and loan funds totaled \$26.5 million with the balance provided by the Government of Bolivia through its PL-480 Program and through direct funding. The Government of Bolivia has also developed a separate but related program whereby it makes compensation payments of \$2,000 per hectare, from its own resources, to peasant farmers who voluntarily reduce their coca plantings.

Since July 24, 1989, the Subsecretariat has been responsible for the supervision and overall coordination of the operations of the Bolivian Government's implementing entities involved in the Project. Additionally, it has been the main Bolivian Government representative to the USAID/Bolivia Mission.

The audit coverage included Bs76,975 (equivalent to US\$28,289) provided to the Subsecretariat by the Government of Bolivia and Bs1,298,910 (US\$475,676 in local currency equivalent) from the PL-480 Program during the year ended December 31, 1989. The audit did not include direct payments made by USAID/Bolivia and the Government of Bolivia on behalf of the project. These direct payments totaled approximately US\$141,217 for the year ended December 31, 1989.

The purpose of the audit was to determine, for the period audited, whether: (1) the Subsecretariat's fund accountability statement for Project cash receipts and expenditures was presented fairly, (2) the Subsecretariat's internal control structure was adequate to manage Project funds, and (3) the Subsecretariat had complied with agreement terms and applicable laws and regulations.

Price Waterhouse found that, except for the inclusion of certain questionable costs amounting to Bs3,450 (equivalent to US\$1,158), the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Subsecretariat. The questionable costs concerned unsupported travel expenses charged to the project.

With respect to the Subsecretariat's internal control structure the auditors noted four material weaknesses concerning: (1) inadequate inventory controls over fixed assets, (2) the lack of procedures manuals, (3) the lack of required documentation in personnel files, and (4) the lack of supporting documentation for reimbursed travel expenses.

In its report on compliance with agreement terms and applicable laws and regulations, Price Waterhouse found that the Subsecretariat complied in all material respects except for: (1) observing certain Bolivian legal requirements concerning its Social Security System, and (2) identifying project goods with the A.I.D. identifying emblem.

In its written response to the report (included in Appendix 1 to the report), dated November 8, 1990, the Subsecretariat expressed overall agreement with the findings. The Subsecretariat outlined corrective actions which have been taken or are in the process of being implemented. Due to security considerations, the Subsecretariat will request a waiver of the marking requirements for the vehicles assigned to the field.

We are including the following recommendations in the office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Bolivia negotiate a recovery of Bs3,450 (equivalent to US\$1,158) in questioned costs (unsupported) included in the Price Waterhouse report dated November 30, 1990 and related to undocumented travel expenses.

Recommendation No. 2

We recommend that USAID/Bolivia, in conjunction with the Subsecretariat for Alternative Development and Coca Crop Substitution, develop a plan for improving the Subsecretariat's controls over fixed assets, for designing and implementing procedures manuals, for complying with USAID/Bolivia's personnel procedures, and for marking assets acquired with A.I.D. funds.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

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January 22, 1991

MEMORANDUM

TO: D/USAID/Bolivia, Carl H. Leonard

FROM: RIG/A/T, Reginald Howard *R Howard*

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the Program of Alternative Development of Cochabamba for the Year Ended December 31, 1989

This report presents the results of a non-Federal financial audit of the Program of Alternative Development of Cochabamba (Program) for the year ended December 31, 1989. The audit was part of a series of six audits performed to evaluate entities receiving funding under the Chapare Regional Development Project (Project), USAID/Bolivia Project No. 511-0543. The accounting firm of Price Waterhouse prepared the report which is dated November 30, 1990.

The Project was initiated in 1983 as a part of the Government of Bolivia's program to reduce coca plantings. The Project focuses on the development of the Chapare region-Bolivia's principal illicit coca growing area. In this regard the Project is concentrated in four major areas designed to develop: (1) agricultural and forestry production, (2) rural industry and marketing, (3) a production and transport infrastructure, and (4) a Project investment fund. The life-of-project budget as of December 1989, was over \$61.0 million. USAID/Bolivia grant and loan funds totaled \$26.5 million with the balance provided by the Government of Bolivia through its PL-480 Program and through direct funding. The Government of Bolivia has also developed a separate but related program whereby it makes compensation payments of \$2,000 per hectare, from its own resources, to peasant farmers who voluntarily reduce their coca plantings.

The main functions of the Program include planning, coordination, evaluation, and follow-up of the sub-projects carried out under the Project. The audit coverage included \$117,782 of A.I.D. of A.I.D. funds advanced to the Program in 1989, as well as \$112,071 provided by the Government of Bolivia and \$424,717 from another implementing entity (PL-480 Executive Secretariat) during the year ended December 31, 1989. The audit did not include direct payments made by USAID/Bolivia and the Government of Bolivia for the their procurement of technical assistance, equipment and supplies on behalf of the Program.

The purpose of the audit was to report on: (1) the fairness of the fund accountability statement for the activities managed by the Program, (2) the adequacy of the Program's internal control structure, and (3) the Program's compliance with agreement terms and applicable laws and regulations.

Price Waterhouse found that, except for the inclusion of certain questionable costs amounting to \$10,883 the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Program. The questionable costs were related to: (1) the procurement of construction materials without the quotations required by A.I.D., (2) costs incurred in the construction of a sub-project in excess of the A.I.D. approved budgeted amount, and (3) salaries and benefits paid to Program employees without the required USAID/Bolivia approval.

With respect to the Program's internal control structure, Price Waterhouse identified six material weaknesses concerning: (1) an inadequate accounting system, (2) lack of procedures manuals, (3) lack of inventory controls, (4) improper hiring practices, (5) inadequate control over sub-project costs, and (6) partial implementation of the Operating Plan for 1989.

In its report on compliance with agreement terms and applicable laws and regulations, Price Waterhouse found that the Program complied in all material respects except for: (1) not observing certain Bolivian legal requirements concerning its Social Security System, and (2) not identifying Program goods with the A.I.D. identifying emblem.

In its written response to the report (included as Appendix 1 to the report), dated November 8, 1990, the Program expressed overall agreement with the findings and stated corrective action has been taken for some of the deficiencies reported.

We are including the following recommendations in the office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Bolivia negotiate a recovery of \$10,833 in questioned costs included in the Price Waterhouse report dated November 30, 1990 and related to (1) the procurement of construction materials, (2) the construction of a sub-project, and (3) salaries and benefits paid to Program of Alternative Development of Cochabamba employees.

Recommendation No. 2

We recommend that USAID/Bolivia, in conjunction with the Program of Alternative Development of Cochabamba, develop and implement a plan for redesigning the Program's accounting system, for designing and implementing procedures manuals, for redesigning its inventory controls system, for complying with USAID/Bolivia's personnel procedures, for designing a sub-project accounting and management information system, for fully implementing its annual operating plans, and for marking assets acquired with A.I.D. funds.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

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FAX No. (504) 31-4465

December 27, 1990

MEMORANDUM

TO: D/USAID/Bolivia, Carl H. Leonard

FROM: RIG/A/T Acting, Lou Mundy 

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the National Service of Roads for the Year Ended December 31, 1989

This report presents the results of a non-Federal financial audit of the National Service of Roads (Service) for the year ended December 31, 1989. The audit was part of a series of six audits performed to evaluate entities receiving funding under the Chapare Regional Development Project (Project), USAID/Bolivia Project No. 511-0543. The accounting firm of Price Waterhouse prepared the report which is dated November 30, 1990.

The Project was initiated in 1983 as a part of the Government of Bolivia's program to reduce coca plantings. The Project focuses on the development of the Chapare region-Bolivia's principal illicit coca growing area. In this regard the Project is concentrated in four major areas designed to develop: (1) agricultural and forestry production, (2) rural industry and marketing, (3) a production and transport infrastructure, and (4) a Project investment fund. The life-of-project budget as of December 31, 1989, was over US\$61 million. USAID/Bolivia grant and loan funds totaled US\$26.5 million with the balance provided by the Government of Bolivia through its PL-480 Program and through direct funding. The Government of Bolivia has also developed a separate but related program whereby it makes compensation payments of US\$2,000 per hectare, from its own resources, to peasant farmers who voluntarily reduce their coca plantings.

The Service has participated in the project since 1987, improving the basic infrastructure of roads and building bridges in the Chapare region. The audit coverage included US\$1,111,443 of A.I.D. funds advanced to the Service in 1989,

as well as US\$50,339 provided by the Government of Bolivia during the year ended December 31, 1989. The audit did not include direct payments made by USAID/Bolivia and the Government of Bolivia for their procurement of technical assistance, equipment, and supplies on behalf of the Service. These direct payments totaled approximately US\$973,646 for the year ended December 31, 1989.

The purpose of the audit was to report on (1) the fairness of the fund accountability statement for the Project's activities managed by the Service, (2) the adequacy of the Service's internal control structure, and (3) the Service's compliance with the terms of the Project Agreement and applicable laws and regulations.

Price Waterhouse found that, except for the inclusion of certain questionable costs amounting to US\$75,068, the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Service. The questionable costs were related primarily to the procurement of material and parts which circumvented A.I.D. regulations requiring prior authorization by USAID/Bolivia.

With respect to the internal control structure of the Service, Price Waterhouse identified three material weaknesses concerning: (1) controls over materials and supplies in the Service's stores and warehouses, (2) shortfalls in counterpart contributions by the Government of Bolivia, and (3) deficiencies in accounting and administrative documentation.

In its report on compliance with agreement terms and applicable laws and regulations, Price Waterhouse found that the Service complied in all material respects except for: (1) performing certain required maintenance and improvement tasks, (2) observing A.I.D. regulations requiring prior authorization for purchases over a certain amount, (3) observing certain Bolivian legal requirements concerning its Social Security System, and (4) marking assets acquired with A.I.D. funds.

In its written response to the report, dated November 13, 1990, the Service expressed overall agreement with the findings except that they stated that they have complied with ceiling amounts established by USAID/Bolivia regarding materials purchases and have followed A.I.D. norms and regulations. In its response to these comments, Price Waterhouse stated that the Service's compliance with regulations was accomplished by dividing purchases, and that they consider this to be a deliberate avoidance of the required procedures.

We are including the following recommendations in the office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Bolivia negotiate a recovery of US\$75,068 (\$6,075 unsupported) in questioned costs included in the Price Waterhouse report dated November 30, 1990 and related to fractioned purchases, purchases made without required quotations, and unsupported purchases.

Recommendation No. 2

We recommend that USAID/Bolivia, in conjunction with the National Service of Roads, develop a plan for providing adequate safeguards for the Service's materials and supplies inventories, for obtaining agreed-upon counterpart contributions from the Government of Bolivia, for improving accounting and administrative documentation, for improving its technical planning procedures, for complying with A.I.D. procurement regulations concerning price quotations and prior approvals, and for marking goods acquired with A.I.D. funds.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

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also 32-3120 EXT. 2701-2703

January 22, 1991

MEMORANDUM

TO: D/USAID/Bolivia, Carl H. Leonard

FROM: RIG/A/T, Reginald Howard *BR Howard*

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the PL-480 Executive Secretariat for the Year Ended December 31, 1989

This report presents the results of a non-Federal financial audit of the PL-480 Executive Secretariat (Secretariat) for the year ended December 31, 1989. The audit was part of a series of six audits performed to evaluate entities receiving funding under the Chapare Regional Development Project (Project), USAID/Bolivia Project No. 511-0543. The accounting firm of Price Waterhouse prepared the report which is dated November 30, 1990.

The Project was initiated in 1983 as a part of the Government of Bolivia's program to reduce coca plantings. The Project focuses on the development of the Chapare region-Bolivia's principal illicit coca growing area. In this regard the Project is concentrated in four major areas designed to develop: (1) agricultural and forestry production, (2) rural industry and marketing, (3) a production and transport infrastructure, and (4) a Project investment fund. The life-of-project budget as of December 1989, was over \$61.0 million. USAID/Bolivia grant and loan funds totaled \$26.5 million with the balance provided by the Government of Bolivia through its PL-480 Program and through direct funding. The Government of Bolivia has also developed a separate but related program whereby it makes compensation payments of \$2,000 per hectare, from its own resources, to peasant farmers who voluntarily reduce their coca plantings.

The principal activity of the Secretariat is providing loans to farmers participating in the coca eradication program, so they are able to plant alternative crops. The audit coverage included \$2,341,510 from collection of credits previously issued under the Project and \$992,651 generated by various Project activities during the year ended December 31, 1989.

The purpose of the audit was to report on: (1) the fairness of the fund accountability statement for Project activities managed by the Secretariat, (2) the adequacy of the Secretariat's internal control structure, and (3) the Secretariat's compliance with the terms of the Project Agreement and applicable laws and regulations.

Price Waterhouse found that, except for the inclusion of certain questionable costs amounting to \$295,960, the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Secretariat. The questionable costs were related to questionable loans made to peasant farmers by the Secretariat with Project funds.

With respect to the Secretariat's internal control structure, the auditors noted four material weaknesses concerning: (1) the lack of supervision over the use of loan proceeds, (2) the absence of a minimum required loan collateral value or an adequate procedure to evaluate the loan collateral, (3) the lack of periodic loan portfolio review, and (4) the lack of accounting and administration manuals for the Project's loan program.

In its report on compliance with agreement terms and applicable laws and regulations, Price Waterhouse found that the Secretariat complied in all material respects except for: (1) granting credits to unqualified farmers, (2) not providing a reserve for uncollectible loans, (3) not verifying that the recipient farmers had ceased cultivating coca, (4) failing to perform semester evaluations of the Credit Program, and (5) making loans to farmers who had failed to make the required contribution to the financed project.

The report was discussed with management of both the Secretariat and USAID/Bolivia who generally agreed with the findings on internal control and compliance. Management's comments are included in Appendix 1 to the report.

We are including the following recommendations in the office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Bolivia negotiate a recovery of \$295,960 in questioned costs included in the Price Waterhouse Report dated November 30, 1990 and related to loans made to farmers who did not meet loan agreement terms.

Recommendation No. 2

We recommend that USAID/Bolivia, in conjunction with the PL-480 Executive Secretariat, develop and implement a plan for designing procedures to ensure that loans are made only to eligible farmers, for assuring that farmers receiving loans comply with the terms of loan agreements, for designing procedures to ensure that program loans are sufficiently collateralized, for designing procedures to periodically review and identify potential collectibility problems in the loan portfolio, for designing procedures manuals to administer project loans, for establishing a reserve for uncollectible loans, and for performing periodic evaluations of the Credit Program's status.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

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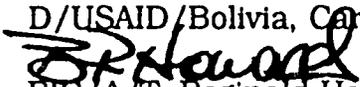
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January 30, 1991

MEMORANDUM

TO: D/USAID/Bolivia, Carl H. Leonard

FROM: 
RIG/A/T, Reginald Howard

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the National Directorate for Agricultural Reconversion for the Year Ended December 31, 1989

This report presents the results of a non-Federal financial audit of the National Directorate for Agricultural Reconversion (Directorate), for the year ended December 31, 1989. The audit was part of a series of six audits performed to evaluate entities receiving funding under the Chapare Regional Development Project (Project), USAID/Bolivia Project No. 511-0543. The accounting firm of Price Waterhouse prepared the report which is dated November 30, 1990.

The Project was initiated in 1983 as a part of the Government of Bolivia's program to reduce coca plantings. The Project focuses on the development of the Chapare region-Bolivia's principal illicit coca growing area. In this regard the Project is concentrated in four major areas designed to develop: (1) agricultural and forestry production, (2) rural industry and marketing, (3) a production and transport infrastructure, and (4) a Project investment fund. The life-of-project budget as of December 1989, was over \$61.0 million. USAID/Bolivia grant and loan funds totaled \$26.5 million with the balance provided by the Government of Bolivia through its PL-480 Program and through direct funding. The Government of Bolivia has also developed a separate but related program whereby it makes compensation payments of \$2,000 per hectare, from its own resources, to peasant farmers who voluntarily reduce their coca plantings.

The Directorate's main function is to implement the Government of Bolivia's Triennial Plan for Reduction of Coca Plantings by making compensation payments to the peasant farmers of Bolivia who voluntarily reduce their coca plantings. The audit coverage included \$8,629 from sales of project vehicles and \$3,958,892 provided by the Government of Bolivia during the year ended December 31, 1989. The audit did not include direct payments made by the United States' Narcotic Assistance Unit for their procurement of technical assistance, equipment, and supplies on behalf of the Directorate. These direct payments totaled approximately \$1,137,923 for the year ended December 31, 1989.

The purpose of the audit was to report on: (1) the fairness of the fund accountability statement for Project activities managed by the Directorate, (2) the adequacy of the Directorate's internal control structure, and (3) the Directorate's compliance with the terms of the Project Agreement and applicable laws and regulations.

Price Waterhouse found that the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Directorate.

With respect to the internal control structure of the Directorate, Price Waterhouse identified material weaknesses concerning: (1) delays in the payment of monetary compensation to project beneficiaries, (2) the lack of controls over important documents, and (3) verification of reductions in coca plantings by farmers receiving Project payments.

In its report on compliance with the agreement terms and applicable laws and regulations, Price Waterhouse found that the Directorate complied in all material respects except for: (1) reaching the objective set by the Bolivian government of reducing 5,000 hectares of coca planting during 1989, (2) using its "Certificate of Reduction" forms in an improper manner, and (3) not complying with certain Bolivian laws dealing with labor relations and withholding for social security and tax payments.

The report was discussed with management of the Directorate who generally agreed with the findings on internal control and compliance. Management's comments are included in Appendix 1 to the report.

We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Bolivia, in conjunction with the Government of Bolivia and the National Directorate for Agricultural Reconversion, develop and implement a plan for implementing the mandated quotas for annual reduction in coca crops, making timely payments to participant farmers, controlling documents related to coca eradication payments, and verifying that cultivation of coca has been discontinued at plantations where coca eradication payments have been made.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

AGENCY FOR INTERNATIONAL DEVELOPMENT

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January 22, 1991

MEMORANDUM

TO: D/USAID/Bolivia, Carl H. Leonard

FROM: RIG/A/T, Reginald Howard *BR Howard*

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the Bolivian Institute of Agriculture and Cattle Technology/Chapare for the Year Ended December 31, 1989

This report presents the results of a non-Federal financial audit of the Bolivian Institute of Agriculture and Cattle Technology/Chapare(Institute) for the year ended December 31, 1989. The audit was part of a series of six audits performed to evaluate entities receiving funding under the Chapare Regional Development Project (Project), USAID/Bolivia Project No. 511-0543. The accounting firm of Price Waterhouse prepared the report which is dated November 30, 1990.

The Project was initiated in 1983 as a part of the Government of Bolivia's program to reduce coca plantings. The Project focuses on the development of the Chapare region-Bolivia's principal illicit coca growing area. In this regard the Project is concentrated in four major areas designed to develop: (1) agricultural and forestry production, (2) rural industry and marketing, (3) a production and transport infrastructure, and (4) a Project investment fund. The life-of-project budget as of December 1989, was over \$61.0 million. USAID/Bolivia grant and loan funds totaled \$26.5 million with the balance provided by the Government of Bolivia through its PL-480 Program and through direct funding. The Government of Bolivia has also developed a separate but related program whereby it makes compensation payments of \$2,000 per hectare, from its own resources, to peasant farmers who voluntarily reduce their coca plantings.

The Institute through its operative units provides technical assistance in the development of alternative crops, and the sale of genetic material for alternative crops to the intended Project beneficiaries. The audit coverage included \$1,296,805 of A.I.D. funds advanced to the Institute in 1989, as well as \$143,600 provided by the Government of Bolivia. The audit did not include direct payments made by USAID/Bolivia for the procurement of technical assistance, equipment, and supplies on behalf of the Institute. These direct payments totaled approximately \$1,312,784 for the year ended December 31, 1989.

The purpose of the audit was to report on: (1) the fairness of the fund accountability statement for Project activities managed by the Institute, (2) the adequacy of the Institute's internal control structure, and (3) the Institute's compliance with agreement terms and applicable laws and regulations.

Price Waterhouse found that, except for the inclusion of certain questionable costs amounting to \$22,487 the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Institute. The questionable costs were primarily related to: (1) purchases made without quotations, (2) unbudgeted costs, and (3) purchases not allocable to the Project.

With respect to the Institute's internal control structure, the auditors noted eight material weaknesses concerning: (1) defective controls over sub-projects, (2) an inaccurate demand forecast in the operating plan for vegetable supplies, (3) inadequate controls over fixed assets, (4) inadequate recording of supporting documents for cattle operation and inventory, (5) inadequate procedures and controls over inventories on hand, (6) lack of procedures manuals, (7) inadequacies in the accounting documentation of purchases, and (8) reduced counterpart contributions to the Project.

In its report on compliance with agreement terms and applicable laws and regulations, Price Waterhouse found that the Institute complied in all material respects except for: (1) observing certain Bolivian legal requirements concerning its Social Security System, and (2) not identifying Project goods with the A.I.D. identifying emblem.

In its written response to the report (included in Appendix 1 to the report), dated October 14, 1990, the Institute expressed overall agreement with all but one of the findings and outlined corrective actions which have been taken or are in the process of being implemented. The Institute commented in regard to the finding in the internal control section relating to inaccurate demand forecasts that the cause and effect relationship established by the auditors as well the recommendation itself were incorrect. The Institute stated that the overstocking problem was due to external problems. In its response to these comments, Price Waterhouse stated that there must be coordination between the units carrying out the project and more flexible plans so as to be able to respond to changes in demand for alternative crops.

We are including the following recommendations in the office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Bolivia negotiate a recovery of \$22,487 in questioned costs included in the Price Waterhouse report dated November 30, 1990 and related to purchases without quotations, unbudgeted costs, and purchases not allocable to the Project.

Recommendation No. 2

We recommend that USAID/Bolivia, in conjunction with the Bolivian Institute of Agriculture and Cattle Technology/Chapare, develop and implement a plan for improving budgeting, accounting and management information systems for the Institute's sub-projects; for developing operating plans for acquisition of supplies on the basis of realistic needs; for developing records to control the Project's fixed assets and inventories, for designing and implementing procedures manuals; for complying with A.I.D. procurement regulations concerning price quotations; for obtaining agreed-upon counterpart contributions from the Government of Bolivia; and for marking goods acquired with A.I.D. funds with the A.I.D. identifying emblem.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.