

PD-ABE-601
3227

PROJECT ASSISTANCE COMPLETION REPORT

- A. Project Title and Number: Agricultural Services and Union Development - 515-0226
- B. Implementing Agency: American Institute for Free Labor Development (AIFLD/Costa Rica)
- C. PACD: Original 05/31/88
Revised 06/15/91
- D. Amount Obligated: \$2,000,000 (Grant)
- E. Total Expenditures: \$2,000,000 (Grant)

I. PROJECT GOAL

The goal of the project was to contribute to the establishment of an agricultural/marketing program and a private extension organization to promote agricultural production diversification and to provide specific marketing services for non-traditional crops. This program was operated by the Confederación Nacional de Trabajadores (CNT) to affiliated limited resources farmers.

II. PROJECT DESCRIPTION

A. Major Outputs and Accomplishments

1. The major LOP outputs were: (1) graduating farmers from a traditional subsistence economy to a production and/or marketing oriented economy, (2) intensify and diversity non-traditional agricultural production and improve the marketing "linkages" between Costa Rican agro-businesses and limited resource farmers in selected areas of the country, (3) strengthen the growing democratic trade union movement in selected rural areas of Costa Rica, (4) provide technical and managerial support to several growers associations and unions to expand the rural union model where emphasis is placed on the delivery of services to increase trade union membership, and (5) provide rural unions with alternative actions to squatter invasions and civil disobedience disturbances tactics commonly used by some farmer organizations to achieve their objectives.

2. Final Outputs

a. The benefits to unions members provided by the AIFLD/CNT program are both tangible and intangible. The tangible benefits that can be cited are: (a) alternative production and marketing opportunities for commodities such as tubers and root crops, pumpkin, cayenna lisa variety pineapple, maracuya, melon, cassava, blackberry and ginger, (b) increasing incomes and marketing margins to the farm groups by assuming market functions otherwise provided by middlemen. These functions include: washing, sorting, selection, packaging, processing and transportation of the commodities produced. An intangible benefit are: (a) improving interinstitutional coordination with other development organizations. Cooperative Agreements with CAAP, CATIE, IFAIN, BID, INA and CITA were signed thus increasing the technical and political influence of organized rural trade unions, (b) economic indicators are normally expensive to quantify and require a special effort. However, it is obvious that the socioeconomic status of these rural farmers have been improved due to a more stable source of economic income from better production/marketing practices and techniques and (c) the limited resources of the program provide AIFLD with sufficient human resources to adequately establish the proposed rural assistance-extension service.

B. Other Accomplishments and Overall Status

AIFLD and CNT are firmly convinced, through the results of their agrarian experience, that the market economy orientation should be the foundation of any development strategy. The feeling is that the CNT and agrarian unions should participate in the marketing channels assuming marketing functions provided unefficiently and expensively by middlemen. Activities such as grading, selection, washing, drying, packaging, storage and transportation can be provided economically and efficiently by the CNT and the individual agrarian unions. Progress towards this goal can be measured by monitoring such indicators as sales, workers employed, incomes, capital and debt ratios for the commercial projects.

C. Project Administration Status

1. On June 18, 1990, AID requested an evaluation of the Agricultural Services and Union Development Program. Results/recommendation of this evaluation were:

- a. CNT should implement an administrative and operating decentralization to achieve a greater efficiency of manpower and logistic resources.
- b. CNT should set up a Commission to formulate, control and evaluate the basic activities of the program. The commission should be an advisory organism, keeping the balance between the political and technical issues. CNT should improve the labor education before the technical program begins.
- c. CNT should set goals for the achievement of economic self-sufficiency, in order to promote an ordered expansion of the trading activity.
- d. CNT should increase the working capital for trading, to satisfy the increasing financial requirements of the more complex marketing plan. It should incorporate the market strategic planning, as a fundamental element to promote the trading activity, and develop a strong and trustworthy market data base to improve the capacity to adapt to changes in market conditions.

2. The Office of the Controller has taken the following actions related to the audits of Project No. 515-0226 (AIFLD-CNT-OPG):

- a. On February 23, 1990, the firm of Deloitte, Haskins & Sells (DHS) presented the Audit Report without opinion on the Statement of Income, Expenditures and Budget Implementation, because of the refusal of the AIFLD administration to sign the "representation letter" and because there was neither physical verification of furniture and equipment nor satisfactory support documentation on the sale of a vehicle and some of the payroll.
- b. On August 29, 1990, we received a fax from AIFLD in which DHS was sending a short report called "Follow-up to the Audit Findings" in which they explained that, since they had received the letter of representation signed by AIFLD (to this date we do not know for what reason they refused at first to sign and later did sign), they considered reissuing the report, and appreciated in advance, the recovery and return of all the circulating reports so that they could issue it in an updated version.
- c. On October 17, 1990, the Controller's Office went to make a general inspection of the accounting system of the credit fund in the offices of the National Confederation of Workers. They found weaknesses in internal control and in the accounting records such that they could result in questionable costs. Eventually, they resulted in refused costs of approximately \$20,000.
- d. On October 22, 1990, Mr. Ronald F. Venezia, based on the Audit Report and on the October 17 visit, sent a letter to Mr. Gordon Ellison, AIFLD Director in Costa Rica, requesting an explanation of the weaknesses found by the Controller's Office. Among the actions requested was the reconstruction of the

records related to the credit fund (which, if not carried out, would result in the issuance of a Bill for Collection within 60 days). Likewise, he also requested that the weaknesses detected by the DHS auditors should be closed within no more than 60 days.

- e. In November of 1990, the Controller's Office received another version of the final report of the subject Audit.
- f. On December 11, 1990, AIFLD presented to the Controller's Office the action plans and the decisions already taken on the following recommendations (translated into English). On January 10, 1991, the Financial Analysis Office verified the status of the recommendations. The status of follow-up on each recommendation follows:
 - (1.a) A subsidiary ledger for furniture and equipment must be established and reconciled to the control account on a timely and continuing basis - CLOSED.
 - (1.b) The Fair Market Value (FMV) of the pick-up @ the time of sale must be established, difference in sales price and FMV must be returned to AID, responsibility for the questionable sale must be established - CLOSED.
 - (1.c) Vehicle maintenance policy must be issued and money allocated to repair damaged cars - UNRESOLVED.
 - (1.d) The status of ownership of buildings built on land not belonging to the grantee nor sub-grantee should be clarified. Prior approval of AID should be obtained in the future - CLOSED.
 - (1.e) USAID must be informed of stolen property and approve its continued classification as an allowable project disbursement - CLOSED.
 - (1.f) AIDLF/CNT must get the approval of USAID concerning the disposition (i.e. change of budget line item) of insurance settlements - CLOSED.
 - (2.a) The subsidiary ledger of outstanding loans must be reconstructed and reconciled to the control account on a timely and continuing basis UNRESOLVED.
 - (2.b) All loans must have adequate supporting documentation, this includes the Union Secretaries' loan guarantees issued to replace the original undocumented loans - UNRESOLVED.
 - (2.c) Adequate written procedures for loan forgiveness must be placed and implemented for loan forgiveness - CLOSED.
 - (2.d) Written procedures must be developed and implemented for the approval of loans - CLOSED.
 - (3.a) Written procedures should be established for the distribution of proceeds from the sale of product - CLOSED.

(3.b) To extent possible legal remedies should be pursued to recover lost pineapple sales; in future cases exporter's financial viability and reputation should be investigated before sales are made - CLOSED.

(4.a) Canceled checks should be requested from the bank and reviewed by an individual independent of the payment function for alterations of amounts, signatures and suspicious endorsements - CLOSED.

(4.b) Written procedures should be established for the purchase of gasoline and automobile supplies; contracts should be executed with suppliers in each area of operation - CLOSED.

(5.a) Checks should be issued and recorded in numerical sequence; disbursements to CNT should not be recorded as loans; an internal accounting function should be established - CLOSED.

(5.b) UCASA and UCZON should reconstruct their accounting records as soon as possible - CLOSED.

(6.a) The agreement between AIFLD and CNT should be reviewed for deficiencies; if the program is to continue deficiencies should be corrected - CLOSED.

(6.b) As indicated in previous recommendations written procedures should be established in all principal areas of the program: credit and collections, fixed assets, other areas where considered necessary - CLOSED.

(6.c) AIFLD should negotiate with AID other donors to obtain funds necessary to adequately finalize the project - CLOSED.

Clearly, there are still three important open recommendations in this audit which, in our opinion, cannot be pursued since the CNT no longer exists (now, all of its assets and records have been passed to FEDETAICO), other people are in charge of the project, the termination date of the project has passed and all of the approved financing has been disbursed. Therefore, these three recommendations are considered closed although AID wishes to make clear that it is not satisfied and is classifying the recommendations as closed because it is impossible to continue the follow-up.

- g. On June 23, 1992, we received a new audit report covering the last period of the agreement (October 1, 1990 through June 30, 1991). This audit was supervised by RIG/AT and performed by KPMG Peat Marwick. In this report, six non-material recommendations of internal control are described and one material recommendation is made referring to legal compliance and applicable regulations. According to the memorandum from Mr. Lou Mundy, RIG/AT (Acting) to Mr. Ronald F. Venezia, Mission Director, it is not necessary to follow up on these recommendations because the project has terminated and there are no other agreements with AIFLD. Nevertheless, Mr. Mundy warns the Mission that, in the event that another agreement is reached with AIFLD, the Mission should make sure that the Social Security quotas left unpaid be cleared. This should be done before any additional funds are committed.

Below are the 6 recommendations which remained open in the last audit of the project.

1. AIFLD should encourage CNT to obtain the guarantees on crops in an expeditious and timely manner in accordance with the terms of the Costa Rican Code of Commerce. If possible, loans should be guarantee by other goods, enabling the project to ensure their collection.
 2. AIFLD should request CNT to establish adequate procedures to ensure that subsidiary ledger for loans to farmers is kept current and reconciled to the general ledger.
 3. AIFLD should request CNT to physically identify all fixed assets acquired under the credit fund with a metal tag indicating "Project No. 515-0226".
 4. In order to comply with Costa Rica laws, AIFLD should request CNT that Social Security payroll taxes and payroll withholdings must be paid on time. (Material instance of non-compliance)
 5. Written reports are to be prepared by AIFLD, regarding the objectives and results obtained from his visits to the base groups of farm unions.
 6. Reviews of bank account reconciliations must be evidenced by the signature of the person responsible for such review.
- h. On May 20, 1992, we received a letter from Mr. José Gabriel Corrales, a farmer of the Union of Agroindustrial Workers of Pérez Zeledón (UTRAIPZ) in which he alleges that the Union Secretary signed an I.O.U. at the request of CNT and AIFLD for 2,092,179.45 colons as evidence that he had received the money. In the event of any irregularity they would be amenable to pay this amount in order to satisfy AID staff so that they would not continue to bother the project for lack of supporting documentation.

We immediately sent this letter from the farmer to RIG/Investigation on May 28, 1992, so that they would be aware of the allegation. Ms. Luisa Chon of RIG/Investigation took charge of the investigation and in the near future they will be coming to the country to take the appropriate measures.

III. CONCLUSIONS

To put these facts into perspective, there were three troubling aspects to this program:

First was the management of the credit fund. The value of this fund was about \$225,000. The problem was that the CNT accounting records were inadequate to properly and completely identify all the farmers who owned money on the loans, and how much each one owed. This condition was detected toward the end of the project. The CNT was unable to satisfactorily reconstruct the hundred of individual records,

and instead, had each of the unions sign a loan note promising to pay back to CNT, an amount of money equal to that owned by the individual farmers in their unions. The unions would then collect the amounts due from their members. The Controller accepted this solution since it would firmly establish the amounts owed to the loan fund, and simplify the accounting and collection burden on the CNT. However, as mentioned above, one of the unions has formally complained to AID that their members did not receive the loans from CNT. If this is true then a fraud has occurred. On the other hand, the complaint may only represent difficulties arising from the accounting deficiencies detected earlier. The union complaint has been referred to RIG/Investigations. In any event, it is clear that the small farmer loan component of this project failed in certain important respects.

Second, during the Controller's review of the loan program, it came to light that the CNT has loaned money from the loan fund to some of the marketing operations of the project, which indicated that the financial management of these components was also deficient.

Third, another important negative aspect of this project was that the marketing and loan program were too small to cover the staff costs of this activity on a sustainable basis. Part of the reason for this was that many of the project staff were involved in unions organizing activities not directly related to the entrepreneurial components of the program.