AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

OFFICE OF THE AUDITOR GENERAL

AREA AUDITOR GENERAL - LATIN AMERICA

AUDIT REPORT

USAID/ECUADOR

INSTITUTIONAL DEVELOPMENT-AGRICULTURAL COOPERATIVE

PROJECT NO. 518-11-995-096.1

Audit Report No. 1-518-73-90
Date: March 13, 1973

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PART I

SCOPE OF AUDIT

The Area Auditor General - Latin America, at the request of U.S.A.I.D./Ecuador, has made an interim examination of the Institutional Development-Agricultural Cooperative Project No. 518-11-995-096.1 and the performance of the Cooperative League of the U.S.A. (CLUSA), Contract No. AID/csd-2901, Task Order No. 4. The examination included a review of project activities from October 1, 1969 through September 30, 1972, with emphasis on current transactions and performance. We tested documentation in support of $3,000,000 disbursed during the period under review. The scope of examination included a review of whether program results are being effectively achieved, including an evaluation of compliance with applicable laws and regulations and the efficiency and economy of the use of resources.

The examination was made in accordance with generally accepted auditing standards giving due consideration to A.I.D. regulations. The audit was performed at the main office of the National Federation of Rice Cooperatives (FENACOOPARR) in Guayaquil and visits to seven base-level cooperatives in the surrounding area, and the National Federation of Agricultural Production and Marketing Cooperatives (FECOPAM) in Quito. Our audit did not include a review of the Direct Agricultural Production Credit Program (DAPC), Agricultural Marketing, the Land Sales Guarantee Loan which are other sub-projects of the cooperative program, or the Ecuadorean Cooperative Bank (BANCOOP). The results of audit were staffed with U.S.A.I.D. management and operating personnel prior to publication of the report.

PART II

BACKGROUND

A.I.D. supported cooperative development programs in Ecuador date from 1963. The objective of cooperative development efforts is to create within Ecuador strong, viable cooperative institutions capable of continuing after A.I.D. technical assistance is terminated. To achieve the objective, three major areas were identified for development: (1) formation of base-level agricultural marketing cooperatives, regional and national federations, (2) national credit union movement, and (3) development of an Ecuadorean cooperative bank.

The first phase of the project consisted primarily of the development of the coffee growers cooperative federation and related base-level cooperatives and cooperative federation unions. Direct A.I.D. assistance to the coffee grower cooperatives and coffee federation (National Federation of Coffee Marketing Cooperatives - FENACAFE) terminated in 1969 The coffee cooperatives have since progressed to the point where the federation has been assigned ten percent of the total Ecuadorean quota for coffee exports.

In 1968 work was initiated to determine the feasibility of organizing rice grower cooperatives. The preliminary effort established the feasibility of such a project and a rice cooperative project was established under a Cooperative League of the U.S.A. (CLUSA) contract. The objective of the rice project was to form thirty base-level cooperatives, and affiliate them in a cooperative rice federation. Although some of the base-level cooperatives already existed, in most cases, it was necessary to form new cooperatives. This process included initial contact through promotion and motivation, cooperative education and leadership training, legalization, and cooperative management training. Thus the first two years (1969-1970) were dedicated to the organization and legalization of cooperatives, the acquisition of land for cooperatives, and the formation of the rice federation (FENACOOPARR). The implementation of the Land Sale Guarantee Loan, designed to further land acquisition by cooperative members, was delayed.

In early 1970 work began in the highlands of Ecuador with the objective of developing a cooperative infrastructure. In that region several base-level cooperatives were already in existence and the focus was one of improving the administration of existing base-level cooperatives and organizing a regional cooperative association (FECOPAM) to provide farm supply services and later to initiate marketing activities.

In 1969 the Cooperative Development Project No. 518-15-990-058 was divided into the following sub-projects and renumbered Project No. 518-11-995-096:

(1) National Federation of Rice Cooperatives (FENACOOPARR)

(2) National Federation of Agricultural Production and Marketing (FECOPAM)

*(3) Directed Agricultural Production Credit Program (DAPC)

*(4) Agricultural Marketing

*(5) Ecuadorean Cooperative Bank (BANCOOP)

* Activities not included in current review.

The current Project Agreement, number 72-08, states the major goal of the project as being the establishment of an agricultural cooperative infrastructure that is financially, technically and administratively self-sufficient, able to provide financial and essential services for the continued growth and improvement of the agricultural cooperative movement in Ecuador, and able to identify and seek necessary financial and technical assistance.

As of September 30, 1972, project funding was:

	Obligated	Expended
Direct A.I.D.		
Personnel	$ 139,000	$ 139,000
Participants	4,000	5,000
Commodities	58,000	46,000
Other Costs	369,000	261,000
Sub-total	$ 570,000	$ 451,000
Contract		
Personnel	$2,470,000	$2,305,000
Participants	55,000	55,000
Commodities	55,000	55,000
Other Costs	883,000	794,000
Sub-total	$3,463,000	$3,209,000
Total	$4,033,000	$3,660,000

PART III

SUMMARY

A.I.D. identified the development of agricultural cooperatives in Ecuador as one of the prime means of providing economic development impetus to the less advantaged, and most populous, element of Ecuador's agrarian population. Much progress has been made in the development of base-level cooperatives. The development of the cooperative coffee federation was a success and is now well organized and financially self-sufficient. The agricultural cooperative project as it concerns the development of a rice cooperative federation (FENACOOPARR) and a regional cooperative federation (FECOPAM) has been less successful. The results of audit indicate several reasons for the limited success of the two federations and suggests approaches to resolving barriers to their development. Opportunities exist for improvement of project efficiency and effectiveness in the following areas.

FEDERATION MANAGEMENT

The management of the National Federation of Rice Cooperatives (FENACOOPARR) requires strengthening to provide for the success of the federation. Audit disclosed want of sound management practices, less than desirable internal control and reporting, and the payment of expenses for non-federation business. (Page 8)

FINANCIAL CONTROL

FENACOOPARR, FECOPAM and their base-level cooperative members' financial procedures and reporting are less than desirable to meet the stewardship responsibility to their respective members. Nearly every cooperative entity we observed and tested had accounting errors that compound and distort the financial condition and results of operations. Procedural weaknesses were noted in permanent records. (Pages 11 and 19)

CLUSA CONTRACT

The Cooperative League of the U.S.A. (CLUSA) has had limited success in organizing FENACOOPARR and FECOPAM into effective well managed federations and is not fulfilling the scope of its contract. This appeared to result in part from CLUSA's over reliance on implementation agreements with the federations and less than direct supervision and guidance of federation activities. (Page 22)

U.S.A.I.D. MONITORING

The results of audit indicate U.S.A.I.D. has relied too heavily upon CLUSA for attaining project targets. This condition precluded U.S.A.I.D. from identifying and resolving problems which have developed over the past two years. For example, U.S.A.I.D. did not enforce CLUSA's reporting requirements for the 21 months period ended October 1972. (Page 28)

FEDERATION SELF-SUFFICIENCY

FECOPAM is not meeting the 25% financial self-sufficiency planned for 1972. According to FENACOOPARR's unaudited, internally prepared income statement for the nine months period ending September 30, 1972, it is 17% financially self-sufficient compared to the calendar year 1972 goal of 15%. (Pages 15 and 21)

PART IV

FOLLOW-UP ON PRIOR REPORTS OF AUDIT

There have been two prior reports of audit of this program, Audit Report Nos 69-12 and 70-08, that reviewed US $599,000 expended between 1967 and September 30, 1969, and reviewed the organization phase of base-level cooperatives. There are no outstanding recommendations.

PART V

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. For the Mission Director, USAID/ECUADOR

1. FEDERATION MANAGEMENT - FENACOOPARR

a. Background

The National Federation of Rice Cooperatives (FENACOOPARR) was legalized in October 1970, to provide services and marketing advice to base-level rice cooperatives. The main office is located in Guayaquil near a number of base-level cooperatives and a rice mill that FENACOOPARR is leasing. The Federation has been receiving 85% financial support from U.S.A.I.D. for the last two years. To advise and assist FENACOOPARR U.S.A.I.D./E. negotiated a contract with the Cooperative League of the U.S.A. (CLUSA) to utilize their professional and technical experience to attain the Mission's program goal--to create within Ecuador strong, viable cooperative institutions capable of continuing after A I.D. technical assistance is terminated. FENACOOPARR employes twenty-three (23) people, thirteen of whom are management or technical, a general manager, six department heads, legal advisor, controller, two field extension coordinators and two field accountants The total annual payroll of all FENACOOPARR employees is currently S/. 986,040 ($39,440) per year, about 40% of the operating budget.

b. Condition

The management of FENACOOPARR requires strengthening to provide for the success of the federation. Management weaknesses include want of sound management practices, expenditures that are of questionable value to the federation, less than desirable technical expertise, and minimum service to member rice production cooperatives. The effect of these conditions continues to perpetuate a weak federation in management, financial viability of the federation, and less than desired support from member rice production cooperatives.

FENACOOPARR's internal management controls are weak. For example, we noted 19 A.I.D. reimbursed documents signed in blank and 14 disbursement authorizations signed in blank by the general manager. Signing documents in blank indicates weakness in management controls. Internal administrative practices were not being followed; for example, control of cash disbursements requires two signatures for cash withdrawal, but only one signature is being used. Responsible FENACOOPARR personnel do not periodically verify book inventories through physical confirmation of rice and farm supplies.

Management has not formulated procedures for increasing capital or collecting unpaid subscribed capital. For example, there is S/. 13,000 ($520) capital subscribed and uncollected. Revision No. 2 of Project Agreement 72-08, dated March 30, 1972, required FENACOOPARR to collect the outstanding unpaid capital. However, the unpaid capital subscribed was uncollected as of September 30, 1972.

Available information indicates the general manager was absent 146 days in the twenty-one months of FENACOOPARR's operation. Of these 146 days, 47 days were spent in Europe and Latin American and 89 days in Quito at a cost of S/. 94,203.15 ($3,768) to FENACOOPARR. Exhibit A. The purpose of the European trip was not indicated on the travel voucher nor other supporting documentation. Latin American trips were for the Organization of Cooperatives of America and the cost paid by FENACOOPARR and reimbursed by A.I.D. in the amount of S/. 9,072.00 ($363) for per diem. Although the $1,033 cost of the European trip was not directly reimbursed by A.I.D., A.I.D. does reimburse FENACOOPARR for 85% of its operating costs including travel. Exhibit A also shows that while the general manager was collecting transportation costs between Guayaquil and Quito and per diem from FENACOOPARR the general manager also collected transportation costs and per diem from the Ecuadorean Cooperative Bank (BANCOOP) FENACOOPARR records indicate that the federation paid the air transport cost for the general manager's wife to Quito twice. U.S.A.I D./E. reimbursed one of these trips The general manager has collected double per diem from two organizations in the amount of S/. 15,240.20 ($610) in the 21 months FENACOOPARR has been in operation. The federation records do not contain trip reports that would indicate the benefits to FENACOOPARR from these trips, which have a total cost of $3,768. In our opinion, the manager has spent too much time away from the office and member cooperatives (according to his travel vouchers for 8 months of 1972, he has made only 12 trips to the cooperatives) to effectively manage FENACOOPARR.

FENACOOPARR's service to its 29 member rice production cooperatives has been deficient. One of FENACOOPARR's responsibilities is to service its member cooperatives in management, marketing, accounting, and auditing. The seven cooperatives we visited indicated that management assistance has not been of measurable value. One cooperative, Las Mercedes, which has recently changed management, gave their books in June 1972, to FENACOOPARR to prepare financial statements. Las Mercedes was awaiting the financial statements from FENACOOPARR at the time of our visit in October 1972. Another cooperative had to send their books to a public accountant in Guayaquil. The cooperative La Consuela has not been advised by FENACOOPARR on how to write-off a S/. 108,000.00 rice inventory that does not physically exist These conditions indicate the cooperatives are not receiving technical expertise and needed management service. However, after reviewing FENACOOPARR's books we do not believe that the cooperatives will receive desired services until FENACOOPARR's technical expertise and management ~~improves~~.

Recommendation No. 1

U.S.A.I.D. Ecuador should:

(a) In collaboration with CLUSA, develop a management plan to ensure that FENACOOPARR management weaknesses are resolved.

(b) Review the results of audit concerning the activities of FENACOOPARR's general manager and determine the course of action required to improve federation management.

(c) Determine the course of action required to resolve the duplicate payments of per diem to FENACOOPARR's general manager in accordance with applicable A.I.D. regulations.

(d) Appraise FENACOOPARR's degree of management and financial self-sufficiency in comparison to planned goals and A.I.D. support and determine the effect the appraisal may have on A.I.D's continued support of FENACOOPARR.

2. FINANCIAL CONTROL

a. Background

Accounting control procedures and reliable financial reporting contribute to effective management and clear delegation of authority, asset accountability, and aids an organization in the orderly direction and coordination of its affairs.

Two reports are essential to financial management, the Statement of Financial Position (Balance Sheet) and Statement of Income (Profit and Loss). These reports must be in a format that management can understand and use to evaluate past performance and to program future operations. The Statement of Financial Position should be designed to emphasize the working capital available (excess of current assets over current liabilities), fixed assets, long-term liabilities, capital and earnings retained. The Statement of Income should be designed to summarize income and their related costs and operating expenses by appropriate classification.

b. <u>Condition</u>

FENACOOPARR and their base-level cooperative members' accounting procedures and reporting do not reflect accurate financial positions or the results of operations. This condition is caused by the federation's and cooperatives' want of management control and procedures, and not recording transactions in journals, ledgers or their equivalent. As a result financial reporting is not complete and of limited value to management. Formal records and reporting are required to express accurately, promptly, systematically and conventionally the transactions that an organization enters into.

<u>Financial Reporting</u>

The federation and its base-level member cooperatives' present financial reporting does not accurately reflect financial condition. The format does not facilitate determining working capital, gross income, cost of sales, and gross profit. The federation reflects its retained earnings, in the balance sheet reporting format, in the accounts payable section; and in the cooperatives, operating deficits (losses) are reported under accounts receivable. This method of reporting does not facilitate analysis by management to manage effectively.

<u>General Ledger</u>

Since March 1972, FENACOOPARR has not posted its transactions to journals or the general ledger. The accountants have been recording sales and expenditures in "T" accounts on unbound sheets of paper. A "T" account is a tool used for demonstrating the effect of a transaction or a series of transactions, or for solving short accounting problems. These "T" account recordings do not constitute a permanent record.

Cash Control

Lack of control over cash is a serious weakness. CLUSA, in its implementation agreement with the federation required the establishment of a 2-signature withdrawal policy which the federation is not observing.

FENACOOPARR maintains six bank depositaries. Checks drawn require only the manager's signature. In the case of one FENACOOPARR depositary account the marketing manager's signature is all that is needed. Without the 2-signature control cash may be subject to diversion. For example, the marketing manager negotiates the purchase of rice for FENACOOPARR and is authorized to sign the payment checks.

Personnel Cash Advances

FENACOOPARR's personnel cash advances are abnormally high and are not being liquidated against filed documents for which advances were made. The August 1972 outstanding advance account reflect S/. 46,385.19 ($1,855), which is about 10% of the U.S.A.I.D./E. advance of S/. 500,000.

The advance account includes two persons with a total of S/. 2,700 ($108) in salary advances outstanding who have not been on the payroll since March 1972. The account also reflects advances to the general manager of S/. 23,381.54 ($935), S/. 9,000 of which has been outstanding for nearly a year. The S/. 9,000 was advanced in January 1972, to the manager for publication costs of the 1972 calendar year annual report. The general manager's outstanding advances have increased S/. 4,516.54 since March 1972 and another employee's advances have increased

S/. 5,332.30 since March. While vouchers have been processed in the interim that should have liquidated outstanding advances, vouchers have been paid in full without offsetting the applicable advance.

Cost of Sales

FENACOOPARR's cost of sales accounts are incorrect. The unreliability of the rice cost of sales account is obvious when August and September statements are compared. The inventory of rice and cost of sales remained the same both months, respectively S/. 156,065.81 and S/. 1,537,775.20; but there were sales of S/. 185,500.00 reported for September 1972. The want of cost control precludes effective management. In our opinion, the control of cost must be maintained if the federation is to be successful.

Depreciation and Asset Accountability

FENACOOPARR's profit and loss statement for the nine months ended September 30, 1972, does not reflect depreciation charges for the nine-month period. To disregard a systematic monthly charge to operations of the cost of a limited-life asset distorts the financial condition of FENACOOPARR and the results of its operations.

A test of the physical existence of assets checked against the asset control indicated a number or discrepancies. For example, a Friden calculator, a 3M-107 copier and a rice moisture indicator were not in the asset control account.

In our opinion, effort should be made to improve the accounting and reporting of FENACOOPARR operations to aid management in its orderly direction and coordination of the federation.

Recommendation No. 2

U.S.A.I.D. Ecuador should require CLUSA:

(a) To develop for the federation an accounting system, control, and administrative procedures that will maintain the accuracy and propriety of transactions and the bookkeeping record thereof, and develop a monthly reporting format that will aid federation's management in the orderly direction and coordination of the federation.

(b) To advise and assist the Ecuadoreans, including the directors, managers, accountants, and other responsible employees in good management and operations practices.

3. FEDERATION SELF-SUFFICIENCY

a. Background

A.I.D's plan was to provide financial support to the federation during the formative period. The planned goal for the federation at the end of calendar year 1972 was that FENACOOPARR would be 15% financially self-sufficient.

b. Condition

As of September 30, 1972, FENACOOPARR would appear to be 17% financially self-sufficient according to unadjusted internal financial statements prepared by the federation.

FENACOOPARR purchases paddy rice from base-level member cooperatives for milling and marketing. As of September 30, 1972, FENACOOPARR reported rice sales of S/. 1,886,000 ($74,600) and the cost of those sales paid to cooperatives was S/. 1,538,000 ($61,500) for the paddy.

FENACOOPARR leases its rice processing plant at an estimated annual rental and operating cost of $5,000 according to the September 30, 1972, income statement.

Our observation of the rice milling facility indicated records are inadequate to control rice movement. Records are not maintained for rice received, grades, moisture content and weight delivered to the drying areas and transferred to the mill. A periodic inventory is not taken by responsible FENACOOPARR employees and no check and balance system is used to control purchase of paddy and accurately determine gross profit.

Paddy rice purchases for the milling operation comes from only a few cooperatives near the mill, other cooperatives are too far away and transportation costs prohibit using the mill. Those cooperatives using the mill object to the mill's closing hours of 5:00 P M. during harvest periods inasmuch as the rice producers harvest beyond 5:00 P.M.

Farm supply sales totaled S/. 347,600 ($13,900) for the nine months ended September 30, 1972, or about 17% of FENACOOPARR's total revenue. Cost of sales totaled S/. 293,600 ($11,340) for the same period for a gross profit on sales of S/. 54,000 ($2,560). Most of the sales volume is from insecticides and small hand tools. The sale of these products does not render cooperative members a savings as the prices of goods are set at what other merchants sell the same product.

A test of the farm supply records revealed they were unreliable. Inventories were overvalued by S/. 12,040 ($472) as of August 31, 1972. Although the farm supply store maintains product cards, the main office does not have financial control--no purchase or sales journals. A comparison of unit costs maintained by the farm supply store and the main office indicated different costs were used for 8 of 11 items.

4. FEDERATION MANAGEMENT - FECOPAM

a. Background

The National Federation of Agriculture Production and Marketing Cooperatives (FECOPAM) was legally formed on July 30, 1968, to provide a means to improve small farmers' incomes and to provide technical and marketing assistance to base-level cooperatives. During the period July 1968 through April 30, 1971, FECOPAM was ineffective due to economic difficulties, and the Government of Ecuador placed FECOPAM in receivership which has not been revoked. U.S.A.I.D./E., through CLUSA, has been assisting FECOPAM since January 1972. Provisional U.S.A.I.D./E. economic and technical assistance was agreed to in Project Agreement No. 72-08 of December 8, 1971, allocating $50,000 to defray FECOPAM's operating costs during 1972 and provided for CLUSA's technical assistance.

Although FECOPAM continues operating in the present CY under intervention by the Government of Ecuador and undergoing reorganization, the work plan mutually agreed to in the Project Agreement required, (1) a work plan of the types of technical assistance to be provided as well as a detailed job description for one full-time CLUSA agricultural cooperative advisor to FECOPAM; (2) that by May 1, 1972, FECOPAM with CLUSA assistance will present to the National Directorate of Cooperatives, CLUSA and U.S.A.I.D./E. for their approval the results of a study of the economic feasibility of FECOPAM, that will include a plan for capitalization and financing of FECOPAM, and a three-year projection of expense and income budgets with projections of A.I.D. financing requirements. The study should also include specific economic feasibility studies and work plans that will be carried out for each of the regional projects with which FECOPAM expects to work during CY 1972; (3) that FECOPAM will initiate the implementation of a data collection system under a schedule that will be mutually agreed between FECOPAM and U.S.A.I.D./E. by February 15, 1972; (4) FECOPAM will maintain its own accounting system and be responsible for payment of all of its expenditures; and (5) FECOPAM will contribute from its own sources S/. 257,726 for its operations costs.

FECOPAM has twelve (12) people ten of whom are management or technical, general manager, four department heads and five extensionists. The total annual payroll of all FECOPAM employees is currently S/. 591,000 ($23,640) per year, or approximately 45% of the annual budget.

b. Condition

FECOPAM has just completed the first phase of its program which includes training, organizing base-level cooperatives, developing work plans and assisting in establishing income producing entities. In this phase of development FECOPAM has not begun to generate its own revenue. This recently completed phase in FECOPAM's development and non-entry into the commercial phase precludes an evaluation of their management in the commercial phase. Management appears to have been effective in the first phase. For example, 48 of 87 existing base-level cooperatives have been assisted by FECOPAM in the organizational phase.

At the time of our review FECOPAM was preparing to enter into the commercial phase of its operations. There was evidence of FECOPAM management planning in the areas of internal administrative procedures and budgetary projections of income and operational costs for future operational periods through 1976. For example, FECOPAM submitted in March 1972, work and training plans, projects for agricultural cooperatives development in the provinces of Cotopaxi/Tungurahua and in Santo Domingo de los Colorados. The former was submitted through CLUSA to U.S.A.I.D./E. for approval on October 10, 1972, while the latter had not yet been received by U.S.A.I.D./E. in acceptable form. In addition, FECOPAM submitted in May 1972, its operation and income budgets projection for 1973-1976. These projections were said to have been discussed in person by the parties concerned, no written comments exist.

FECOPAM has not established a data collection system, through which the impact of the project could be evaluated. In addition, the semiannual reports submitted by FECOPAM do not provide sufficient information so as to determine the number of new base-level cooperatives incorporated to the federation, number of cooperatives, type of cultivation and crops production, etc., and FECOPAM's accounting system and administrative procedures are deficient and lack adequate financial analysis to show the true financial condition of FECOPAM.

5. FINANCIAL CONTROL

a. Background

Accounting control procedures and reliable financial reporting contribute to effective management and clear delegation of authority, asset accountability, and aids an organization in the orderly direction and coordination of its affairs.

Two reports are essential to financial management, the Statement of Financial Position (Balance Sheet) and Statement of Income (Profit and Loss). These reports must be in a format that management can understand and use to evaluate past performance and to program future operations. The Statement of Financial Position should be designed to emphasize the working capital available (excess of current assets over current liabilities), fixed assets, long-term liabilities, capital and earnings retained. The Statement of Income should be designed to summarize income and their related costs and operating expense by appropriate classification.

b. Condition

FECOPAM and its base-level cooperative members' accounting procedures and reporting do not reflect accurate financial positions or the results of operations. This condition is caused by the federation's and cooperatives' want of management control and procedures As a result financial reporting is not complete and of limited value to management Formal records and reporting are required to express accurately, promptly, systematically, and conventionally the transactions that an organization enters into

Financial Reporting

The federation and its base-level member cooperatives' present financial reporting does not accurately reflect financial condition. The format does not facilitate determining working capital, gross income, cost of sales, and gross profit. The federation reflects its retained earnings, in the balance sheet reporting format, in the accounts payable section; and in the cooperatives, operating deficits (losses) are reported under accounts receivable This method of reporting does not facilitate analysis by management to manage effectively.

Cash Control

Lack of control over cash is a serious weakness CLUSA, in its implementation agreement with the federation required the establishment of a 2-signature withdrawal policy which the federation is not observing FECOPAM maintains one bank depositary, and checks drawn required only the manager's signature

Accounting Control

Within the amount shown in FECOPAM accounts receivable, there is included the value of unpaid reimbursement vouchers submitted to U.S A.I D./E., registration fees, monthly contributions and a portion of losses charged to FECOPAM's cooperative members during the period 1968-1971, in the amount of S/ 161,887 06 Information provided by FECOPAM officials indicates these receivables were recorded by former management and are doubtful of collection.

Cooperative members have refused to pay for services that they have not received. //

Recommendation No. 3

U.S.A.I.D. Ecuador should require CLUSA:

(a) To develop for the federation an accounting system, control and administrative procedures that will maintain the accuracy and propriety of transactions and the bookkeeping records thereof, and develop a monthly reporting format that will aid the federation's management in the orderly direction and coordination of the federation,

(b) To advise and assist the Ecuadoreans, including the directors, managers, accountants, and other responsible employees in good management and operations practices.

(c) To analyze the accounts receivable account and advice FECOPAM in the correct procedure of writing-off uncollectable accounts.

6. FEDERATION SELF-SUFFICIENCY

a. Background

A.I.D's plan was to provide financial support to the federation during the formative period. The planned goal for the federation at the end of calendar year 1972 was that FECOPAM would be 25% financially self-sufficient.

b. Condition

As of September 30, 1972, FECOPAM was considerably less financially self-sufficient than programmed according to internal financial statements prepared by the federation.

FECOPAM's budget projection for 1972 estimated income for the year at S/. 257,726 ($10,310). As of September 30, 1972, FECOPAM's income from subscribed capital of its base-level cooperative members, monthly contributions and fees was S/. 37,954 ($1,520) and for the remaining three months of calendar year 1972, forecast income will not approach the projected self-sufficiency of 25%. As of September 30, 1972, U.S.A.I.D./Ecuador had reimbursed S/. 791,056 ($31,640) for 1972 operating expense which includes a S/. 250,000 ($10,000) advance and vouchers in process of payment.

Recommendation No. 4

U.S.A.I.D. Ecuador should appraise FECOPAM's degree of financial self-sufficiency in comparison to planned self-sufficiency and A.I.D. support and determine the effect the appraisal may have on A.I.D's continued support of FECOPAM.

7. CLUSA ADVICE AND ASSISTANCE TO THE FEDERATIONS

a. Background

The Cooperative League of the U.S.A. (CLUSA) was contracted in 1966 to advise and assist U.S.A.I.D./E. develop an agricultural cooperative infrastructure able to provide financial and technical support for continued growth of the agricultural movement in Ecuador. To attain this goal the Mission suggested 12 targets that would be met by December 31, 1972, succinctly: (1) establish 75 base-level cooperatives and seven federation-level organizations formed and functioning with well-trained managerial staff, technicians, and extension agents. Shortly after signing the Project Agreement No. 72-08 the U.S.A.I.D. reduced the cooperatives to 30 and the federations to two; (2) Increase the income of the base-level cooperatives and their federations from agricultural products marketed and the sale of farm supplies; and (3) that FENACOOPARR would be 15% financially self-sufficient and FECOPAM would be 25% financially self-sufficient. To compass these goals, the Task Order required CLUSA to:

1. Develop a program aimed at strengthening the agricultural cooperatives.
2. Determine the means and resources needed for the implementation of this program.
3. Indicate priorities and set benchmarks for this program.
4. Organize agricultural cooperatives and promote social and economic integration of same.
5. Train and advise Ecuadoreans, including directors, employees and members of cooperative associations and institutions in operations and management.
6. Collect, tabulate and analyze statistics on agricultural cooperative development.
7. Advise on the preparation of publications, posters, and other visual aids media needed for agricultural cooperative programs.
8. Prepare and supervise training programs.
9. Prepare progress reports and statements.
10. Coordinate with other cooperative development institutions.
11. Assist cooperatives in developing and inplementing data gathering and evaluating systems.

CLUSA in turn negotiated Cooperative Development Assistance Agreements, hereafter referred to as implementation agreements authorized under the task order, with the National Federation of Rice Cooperatives (FENACOOPARR) December 30, 1970, and with the National Federation of Agricultural Production and Marketing Cooperatives (FECOPAM) May 30, 1972. It was the intent of these parties that these agreements be recognized as implementing documents to the point where the federations could function and operate productively on their own. However, CLUSA would retain its contractual obligations to U.S.A.I.D./E.

From October 1, 1969 through September 30, 1972, contract disbursements per U.S.A.I.D. records were:

Budget support for federations	$297,850.86
CLUSA - U.S. personnel costs	167,687.79
CLUSA - local and third-country personnel costs	117,646.00
U.S. direct-hire costs	91,763.73
Commodities	39,219.07
	$714,167.45

Of the amount disbursed during the three-year period, $542,562.79 was paid by advice of charges and the remainder, $171,604.66 paid locally. Our review was limited to a test of the budgetary support for the federations as CLUSA's accounting records are maintained in Washington, D. C. and subject to A.I.D./W. examination.

b. Condition

CLUSA was successful in organizing base-level cooperatives during the period 1966-1970. But CLUSA has had limited success in organizing well-managed cooperatives federations since 1971 for FENACOOPARR, and 1972 for FECOPAM. Based upon our review and observation CLUSA's limited success in organizing cooperative federations is a want of commercial expertise on the contract team, what appears to be over reliance on implementation agreements with the federations, and no evidence of periodic evaluation of the federations to identify project problems. These conditions have contributed to weak federation management, weak internal control, and high operational costs.

During the period 1966-1970, CLUSA promoted base-level cooperatives in coffee, rice, and other agricultural products. There are 29 base-level rice cooperatives in FENACOOPARR and 48 in FECOPAM. These cooperatives have been educated in the philosophy that through cooperatives they can obtain better prices selling as a unit. From 1971 to date, CLUSA was to emphasize the development of cooperative federations in marketing the products of the base-level cooperatives in a unified front.

The Contractor representatives in Ecuador were not oriented toward commercial marketing in a not-for-profit enterprise. This may have curtailed federation management from developing an effective agro-business marketing system and; consequently, base-level cooperatives have not fully supported the federations.

One of CLUSA's first acts after the federations were formed was to sign implementation agreements with the federations that transferred much of CLUSA's contractual responsibilities to the newly formed federations. This agreement appears to be one of the major causes for the federations' limited success. For example, the federations indicate CLUSA did not advise, guide, evaluate or report on problems or solutions to the federations. Contrary to contract provisions, CLUSA did not provide the services of a full-time technician in rice and cooperative federation operations to FENACOOPARR for four months; it did not enforce a simple requirement that all federations' checks have two signatures; it did not advise and assist the federations in establishing an adequate accounting and reporting system that would contribute to effective management; it did not, until after repeated requests, assist FENACOOPARR prepare its 1973-1975 budgets; it did not assist cooperatives in developing and implementing data gathering and evaluating systems.

In the Mission's opinion the Contractor's default was due in large part to the inordinate amount of time which the Chief of Party devoted to Regional Task Order No. 2 and other activities unrelated to U.S.A.I.D./CLUSA Task Order No. 4. The project monitor reported having discussed this situation with the Chief of Party on several occasions with little success. The matter was reported to the CLUSA country representative's superior during the latter's visit to Quito in August 1972.

In our opinion, CLUSA has not trained and advised Ecuadoreans, including directors, employees, and members of cooperative associations and institutions in operations and management; nor has CLUSA effectively supervised the federations or reported to the federations' directors or U.S.A.I.D./E. Also, the condition of the accounting records and practices indicate that the CLUSA representative had less than desirable expertise in advising a commercial enterprise. CLUSA

8. CONTRACTOR REPORTS

a. Background

Article IV of the contract requires four types of reports from CLUSA:

(1) Quarterly Progress reports covering all work performed.

(a) Activities during reporting period (including those of local technicians and those of organizations with which technicians are working).

(b) Major problems in the project.

(c) Actions planned during the next quarter.

(2) Completion of assignment report by each technician covering activities undertaken and recommendations for the future.

(3) Interim and special reports as requested by U.S. A.I.D. or the A.I.D./W. Contracting Officer.

(4) Financial reports submitted every two months on actual CLUSA monthly expenditures under this Task Order by budget item, comparing these to the budgeted figures.

b. Condition

CLUSA did not file with U.S.A.I.D./E. any quarterly reports on the federations until October 1972. The report received at U.S.A.I.D./E. in October covered the period January to March 1972. In that report the CLUSA representative stated that he stopped sending reports because, in the CLUSA representative's opinion, no one in U.S.A.I.D./E. or CLUSA read them.

Our review of this one report indicated that the CLUSA advisor did not follow the suggested format, especially, in reporting major problems in the project and actions planned during the next quarter. For example, CLUSA stated that they were not receiving required reports from FENACOOPARR but CLUSA did not state what action it would take to obtain the federation's reports. CLUSA stated that the accounting records were satisfactory but there was a lack of control over cash, inventories, and advances but, again, did not state what action it would take to resolve these problems.

The CLUSA representative who was in Ecuador during the period under audit has departed post. But he has not filed a completion of assignment report. U.S.A.I.D./E. signed off on the CLUSA representative's post clearance with the notation that U.S.A.I.D./E. must receive the completion of assignment report in two weeks.

Recommendation No. 5

U.S.A.I.D. Ecuador should require CLUSA:

(a) To develop a program aimed at strengthening the agricultural cooperative; especially, the federations.

(b) To indicate priorities and set benchmarks to measure progress.

(c) To train and advise Ecuadoreans, including directors, general managers, accountans, and members of cooperative associations and institutions in operations and management.

(d) To assist federations in developing and implementing data gathering and evaluating systems.

(e) To prepare at least quarterly progress reports that state clearly progress or lack of progress, problems and solutions to those problems.

9. U.S.A.I.D. ECUADOR MONITORSHIP

a. Background

A.I.D's Project Management Handbook - Technical Assistance provides the criteria for a management system to achieve effective management of technical assistance projects. This criteria charges the Mission Director with the responsibility for implementing the management system in host countries. The Director's delegated project monitor is charged with the managerial functions of planning, organizing, motivating, communicating, and coordinating efforts to accomplish project objectives.

b. <u>Condition</u>

There was indication the U.S.A.I.D. had made less than desired progress towards identifying and resolving problems which have developed in the agricultural cooperative project over the past two years. Thus CLUSA implemented and supervised the cooperative project without substantive U.S.A.I.D. monitoring; that is, in our opinion, if the project monitor had examined the accounting control of cash, advances, and inventories the deficiency would have been revealed earlier. However, since arrival of a new project monitor in April 1972, the Mission requested an audit, in June, based on Mission knowledge that the project was not running smoothly.

The U.S.A.I.D. did not receive CLUSA's quarterly reports for the 21 months ending September 1972. According to U.S.A.I.D. records, written requests for quarterly reports were begun in June 1972. The project monitor stated that prior to formalizing the requests in writing several oral requests were made with no success.

The U.S.A.I.D. evaluated the qualifications of CLUSA's representative in December 1971, and requested CLUSA's assistance in obtaining a replacement advisor with business experience. A March 1972 arrival date was requested for a FENACOOPARR advisor who was also scheduled to replace the Chief of Party upon the latters departure in Decmeber 1972. However, the position could not be filled until July 1972. In our opinion, much of the commercial phase, which included financial management and control, required expertise not yet apparent in our review. FENACOOPARR management weaknesses included the inability to unify the base-level cooperatives into the federation to market their resources on a unified front. As a result FENACOOPARR's base-level cooperative members have not met their subscribed capital pledges.

FECOPAM's base-level cooperative members have not paid their services and member fees for the period 1968 through 1971 because no technical service was provided by FECOPAM to its cooperative members. With resumption of services in 1972 under U.S.A.I.D. support the cooperative members began paying their fees. FECOPAM reflects the amount due S/. 161,000 ($6,475) as accounts receivable in its balance sheet. In the opinion of FECOPAM management the fees for that period are uncollectable.

The U.S.A.I.D's reliance upon CLUSA and its resultant arm's-length monitoring affected the U.S.A.I.D's monitoring of progress toward project goals.

Recommendation No. 6

U.S.A.I.D. Ecuador should:

(a) Identify and develop workable solutions for the major barriers towards cooperative program progress.

(b) Actively monitor the program.

(c) Enforce CLUSA's reporting requirements.

PROJECT No 518-11-995-096.1

GENERAL MANAGER's TRAVEL COSTS

Reimbursed by FENACOOPARR								Reimbursed by Coop. Bank					
Voucher Dates From 1971	To	Total Days	Quito	Outside Ecuador	Transp. Costs S/	Per Diem S/.	Total S/.	Date	Quito	Outside Ecuador	Transp. Costs S/.	Per Diem S/.	Total S/.
1/25	1/28	3	3		525.00	1,013.30	1,538.30						
2/03	2/04	1	1		225.00	1,622.00	1,847 00						
3/01	3/03	3	3		412.50	1,003.50	1,416.00						
3/19	3/20	2	2		225.00	535.90	760 90						
5/15	5/18	4	4		525 00	697.10	1,222 10						
5/07	5/09	3	3		375 00	744.90	1,119 90						
5/21	5/23	2	2			262.50	262.50						
6/09	6/12	4	4		517.50	572.50	1,090.00						
7/09	7/10	1	1		225 00	114.50	339.50	7/09/71	1		399 80	300 00	699 80
7/25	7/31	7		6-Costa Rica 1-Panama	10,049.55 (A)	7,750 00	17,799.55						
8/09	8/14	6	6			825 00	825 00	8/13/71	1		399 80	300.00	699 80
9/09	9/11	3	3		337.50	534.40	871 90	9/10/71	1		399 80	300.00	699.80
9/16	9/17	2	2		375 00	966.40	1,341 40	9/17/71	1		399 80	300 00	699 80
9/30	10/02	2	2			300.00	300 00						
12/03	12/04	2	2		312.50	908 40	1,220 90	12/03/71	1		200 00	300.00	500.00
12/05	12/07	4	4		612.50	468.00	1,080 50	12/07/71	1		399 80	300 00	699.80
10/21	10/22	15		2-Rome		4,907 28	12,283.38						
10/28	10/29			2-Geneva		462.30							
11/09	11/13			3-Madrid		3,105 00							
11/14	11/19			6-Valencia 2-Paris		3,808.80							
TOTAL 1971		64	42	22	14,717 05	30,601.78	45,318 83		6		2,199.00	1,800.00	3,999.00

(A) Transportation cost paid Metropolitan Touring

Voucher Dates From 1972	To	Total Days	Quito	Outside Ecuador	Transp. Costs S/.	Per Diem S/.	Total S/.	Date	Quito	Outside Ecuador	Transp. Costs S/	Per Diem S/.	Total S/.
				Reimbursed by FENACOOPARR				Reimbursed by Coop. Bank					
1/03	1/08(B)	2	2		(C) 399 80	262 50	662 30						
1/09	1/14(B)	3	3		(C) 399 80	375 00	774.80						
1/15	1/21(B)	2	2		(C) 400 80	75 00	475 80						
1/29	2/05(B)	2	2		(C) 400 80	187 50	588 30						
2/06	2/11(B)	3	3			187.50	187.50						
2/28	3/04(B)	3	3		200 40	412 50	612.90						
3/05	3/11(B)	4	4		(C) 399 80	892.50	1,292.30						
3/13	3/16	3	3		(C) 399 80	472.50	872 30						
3/27	3/30	3	3		399 80	735 00	1,134 80						
4/10	4/15(B)	3	3			719.50	719.50						
4/19	5/01	12		3-Santiago		2,862.00	9,072 00						
				4-Buenos Aires		4,860 00							
				3-Montevideo		1,350.00							
				2-Buenos Aires									
5/18	6/10	23		2-Madrid		3,204 00	25,834 92	5/15/72 to		10 days		10,641 60	10,641 60
(Note: Daily per diem				7-Rome		8,132 82		8/17/72		same cities			
in Europe was at US				7-Cordoba		8,557 35							
$40 and New York at				3-New York		5,940.75							
US $30)				4-San Juan									
6/20	6/26	4	4		400 80	840 00	1,240 80						
7/11	7/13	2	2		(C) 400.80	450.00	850.80						
7/17	7/18	1	1			310 00	310.00	7/17/72	1			300 00	300 00
7/24	8/05	11	11		(C) 400.80	2,698 00	3,098 80	7/25/72	1			300.00	300 00
8/24	8/25	1	1		444 00	712.50	1,156.50						
TOTAL 1972		82	47	35	4,647.40	44,236.92	48,884.32		2			11,241 60	11,241 60

(B) These dates included trips to the cooperatives.

(C) Transportation costs are paid to the manager sometimes and at other times to the Metropolitan Touring Neither the personal voucher nor the Metropolitan Touring invoice have ticket coupons attached Assuming a ticket is picked up a day or two before the flight, we have entered the ticket cost per Metropolitan's invoice

PROJECT No. 518-11-995-096.1

Inventory 8-31-72 - *Per Statement 8-31-72

					Per Inventory Cards Babahoyo			
Qty	Insecticides	Unit Cost	Unit	Total	Qty	Correct	Total	Over Value
13	Glns Stam F-34	153 92	p/gln	2,000 96	0			2,000.96
20	Glns Weed killer	30 60	P/gln.	1,612 00	20	x	1,612 00	-
12	Glns Surcopur	229 32	p/gln	2,751 84	12	x	2,751.84	-
22	Glns Dacodida	150.28	p/gln	3,306 16	22	x	3,306.16	-
1	Mesto Pump	1,248 00	Pump	1,248 00	1	x	1,248.00	-
1	Iris Pump	1,387.88	Pump	1,387 88	1	x	1,387 88	-
1	Senior Pump	1,759.18	Pump	1,759 18	1	x	1,759 18	-
10	Lbs Aldrin	30 23	p/lb	302 32	0			302 32
41	Lbs BHB	6 10	p/lb	250 08	41	x	250 08	-
61	Urea Bags	96 90	p/bag	6,213 65	32		3,100 80	3,112 85
124	Kilos of Dipterex	95.68	p/kl.	11,864 32	84		8,037 12	3,827.20
	Bags of Ammonium Sulfate	73.44		(4,993 92)	9		660.96	(5,654 88)
4	Bottles of Diaminon	187 40	p/b	747 14	5		937 00	(189.86)
				28,449 61			25,051 02	3,398.59
	Insecticides not on Statement							
	Glass Endrin	153.92			13		2,000 96	
	Masks	207 74			2		415 48	
	Tillex	27.05			25		676 25	
	Kasumin	150.28			6		901 34	
							3,994.03	(3,994 03)

					Per Inventory Cards Babahoyo			
Qty	Tools	Unit Cost	Unit	Total	Qty	Correct	Total	Over Value
35	Rolls of Toro Wire 100 lbs	421.20	p/r	14,742 00	5		2,106 00	12,636.00**
	Other 10 items were correct			8,169 59		x	8 169 59	-
				22,911 59			10,275 59	12,636 00
	TOTAL 8/31/72			51,361 20			39,320 64	12,040 56

* At the time of our audit, 10/31/72, the September statements had not been completed

** The unit cost of 8 of 11 items differ between statement and Babahoya. See August Balance Sheet.

USAID/ECUADOR EXHIBIT C

INSTITUTIONAL DEVELOPMENT-AGRICULTURAL COOPERATIVE

DISTRIBUTION OF REPORT

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