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# Auditor General

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AGRICULTURE SECTOR LOAN II

PROJECT NO. 517-T-029 *Loan*

USAID/DOMINICAN REPUBLIC

Audit Report Number 1-517-79-3

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Area Auditor General Latin American  
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## I INTRODUCTION

At the request of the Mission Director, we have made an audit of the second Agriculture Sector Loan in the Dominican Republic. In December of 1977, the Dominican Government had reported that costs of planning and evaluation had already exceeded the ceiling in the approved implementation plan. A review of that report supported by subsequent developments led to suspension of disbursements in April of the following year.

In that month, former employees of the Dominican Secretariat of Agriculture publicly accused the then Secretary of diverting funds earmarked for the Small Farmer Program to political uses. This program is supported by A.I.D.'s second Agriculture Sector Loan. In reply, the Secretary publicly asked A.I.D. to audit the program. The Mission had no knowledge of A.I.D. Loan funds being improperly used. But the Mission did suspect that some counterpart expenditures were for activities that were not related to the Program.

Simultaneously, at the insistence of the Mission, a joint A.I.D. host-country program review was initiated. The Dominican Government, on its own, determined that \$4.7 million of counterpart funds had been spent on items that were not program related. These expenditures had been recorded as a counterpart contribution to the Program.

In August of 1978, prior to completion of the joint review, the Auditor General initiated the requested audit of the loan. It soon became apparent that the Dominican records were not then in condition for audit. The computerized accounting system had been unable to produce a reliable list of program costs. We were repeatedly assured that the needed list was soon forthcoming and, in view of the urgency of the Mission Director's request for audit, we continued our effort. Unfortunately, the promised list of program costs, never materialized. The results of our review are therefore less conclusive than they would otherwise have been.

Throughout this report local currency amounts are expressed in U.S. dollars at the official exchange rate of US\$1.00 = RD\$1.00.

## II BACKGROUND

The second Agriculture Sector Loan No. 517-T-029 was signed on September 30, 1976. As a counterpart contribution, the Dominican Government agreed to match the \$15 million provided by the loan with the equivalent in local currency. The three-year loan program was designed to help the Dominican Government address the issues spelled out in the Agricultural Sector Assessment prepared by the Secretary of State for Agriculture in 1974:

- The need to improve agricultural policy direction by providing a more sophisticated analytical basis for sector planning in agriculture.
- The underutilization of human resources due to a lack of basic farm skills and an insufficient base of qualified agriculturalists at the professional level.
- The need to utilize arable land more efficiently.
- The need to disseminate original research work developed in the Dominican Republic and other countries more widely.
- The limited use of modern agricultural production inputs.
- The need to improve techniques of classification, fertility, and conservation.
- The scarcity of credit for small farmers.
- The need to remedy deficiencies in the marketing system.
- The paucity of rural infrastructure facilities.

The program consists of 15 elements, sub-elements, and activities. Program components have been formulated cooperatively between the Borrower and AID to assist in achieving the objectives of the Dominican Agriculture Sector Program:

- Increase employment in agriculture in rural areas.
- Develop the institutional and human resources needed to sustain agricultural growth and development.
- Achieve a more equitable distribution of income among those who earn their living from the agricultural sector, thereby improving the quality of rural life.
- Provide food and fiber to consumers at reasonable costs.
- Provide agricultural products for industrial uses, exportation, and import substitution.
- Encourage the kind of agricultural production which will improve nutritional levels.

-- Achieve optimum utilization of renewable natural resources.

As of May 31, 1978, the Dominican Government reported that it had incurred program costs approaching the equivalent of \$7.5 million:

AID-provided U.S. dollar payments	\$ 218,597
AID-provided local currency payments	798,938
Dominican-Government-provided local currency payments	<u>6,413,199</u>
Total reported costs	<u>\$7,430,734</u>

### III SCOPE

Our audit covered the period from September 30, 1976, through May 31, 1978. The audit was made on a selective basis and included such tests as were considered necessary in the circumstances.

### IV SUMMARY

Early efforts to get the second Agriculture Sector Loan underway were unsuccessful. The design of the program seems to have exceeded the implementation capability of the Dominican Republic (see page 3 ). Mission monitoring was not forceful enough to compensate (see page 6 ). Meanwhile, the program was so complex and the Dominican Government's accounting system so weak that how much the program cost and what the money was spent for are not presently known (see page 8 ).

The Mission Director disagreed with our conclusion on Mission monitorship and program costs. His comments appear verbatim following the findings to which they pertain.

### V STATEMENT OF FINDINGS AND RECOMMENDATIONS

#### A. Program Design

Some components of the second Agriculture Sector Loan in the Dominican Republic appear to have been designed more for budgetary support than specific project activities. These program elements are described in general terms; goals, objectives, and outputs are so broadly stated that exactly what the loan is supposed to accomplish is not clear. In any case, the program appears to have exceeded the implementation capability of the Mission and the host country.

According to the project paper, the host-country office responsible for managing the program had proven its ability to coordinate and manage foreign assistance including the first Agriculture Sector Loan. But the first Agriculture Sector Loan had not then been evaluated. A subsequent evaluation of the first loan by the host-country managing office questioned its own technical capacity to coordinate and manage the program.

A Mission technician monitoring one of the program activities financed by the second loan said that apparently the project was based on an assumed host-country implementation capacity that did not actually exist. The managing office has been unable to carry out most of the proposed activities in a sound manner.

Workable goals and benchmarks against which progress could be measured have not been established for some of the program elements. For example, the loan agreement calls for classifying 200,000 hectares of land over the life of the project. But no time-phased plan for doing so has been developed. How can progress be evaluated if no one knows how much land should have been classified the first year? The fact is that no land at all had been classified at May 31, 1978, the audit cut-off date. The project was then over 1 year old.

The multiple implementation problems affecting this program prompted the Mission to insist that the Dominican Government reprogram the loan. Detailed budgets and implementation plans for each program activity are now being developed. Even though the loan agreement did not require such plans for all program elements, it is our opinion this action should have been taken 2 years ago when the program began.

In some cases, such plans were a condition precedent to disbursement. For example, Section 3.02 called for a time-phased implementation plan for the Data Collection and Evaluation sub-elements:

"Prior to any disbursement or to the issuance of any commitment document under the Loan for the purpose of financing the Data Collection and Evaluation Sub-element, A.I.D. shall have received, in form and substance satisfactory to A.I.D., a time-phased plan setting forth the establishment and operation of the Data Bank and Documentation Center."

This condition was never satisfied. The Mission modified the condition and on May 23, 1977, authorized the Dominican Government to proceed with disbursement.

The reprogramming document completed by the Dominican Government on October 3, 1978, is now being reviewed by the Mission. Approval is expected shortly.

### Recommendation No. 1

The Mission should assist the Dominican Government with the development of a sound implementation plan defining attainable program goals.

Mission management disagreed with our conclusion that the program appears to have exceeded the implementation capabilities of the Mission:

"The Mission takes exception to the allegation that the program appears to have exceeded the implementation capability of the Mission. It is true that the program, like most which A.I.D. funding supports, is behind schedule. The audit report appears to base its comments on Mission implementation ability upon that fact alone-- in our view, an unreasonable position. To state the obvious, the major implementing burden in our programs rests with host country entities. If the inadequacies in this direction are serious enough, no amount of Mission effort or competence can compensate."

"While it is true, as the report states, that detailed budgets and implementation plans for each program activity were being developed as of the date of the audit, it is not true, as the report implies, that no such budgets and plans had been prepared previously. Many had been prepared by the Borrower much earlier. They had not been submitted to A.I.D., however, because the loan agreement requires such submission for only a few of the activities. By the Fall of 1977, in response to special Mission requests, plans and budgets for almost all activities had been submitted to the Mission. The plans and budgets recently completed were, for the most part, revisions based upon reprogramming decisions and funds availability.

"The report implicitly criticizes the Mission for disbursing funds for the data collection and evaluation sub-element in the absence of a time-phased plan which the loan agreement required as a condition precedent. A more complete description of this action would have noted that the Borrower had submitted a plan which, while it lacked time-phasing, included all seven of the other items specifically set forth in the implementation letter which explained this condition precedent. The Mission permitted a disbursement of

\$42,727.25 for this activity, all of it to cover dollar costs for rental of equipment and technical assistance contracted for the programming and implementation of the activity. It was the Mission's judgment that this quite limited disbursement would assist the Borrower to develop the required time-phasing and thus result in a more timely implementation of the program."

#### B. Program Accomplishments

In our opinion lack of effective monitoring by A.I.D. is one reason why the second Agriculture Sector Loan has shown so little progress. From the outset, the managing office of the Dominican government has performed poorly. Mission efforts to advise and encourage have not been effective. Vague program design (see page 3) and ineffective oversight probably account for the meager results that have been achieved so far.

The timing and complexity of the second Agriculture Sector Loan probably overextended both the Mission and the Dominican government. When the second loan was signed, \$9.4 million of the \$12 million available under the first had not been disbursed. The overlapping technical and administrative requirements exceeded the resources of the Dominican Government and the monitoring capabilities of the Mission. As of October 31, 1978, the first loan still had an undisbursed balance of \$875,349. One could therefore reason that the second loan was premature by at least 1 year.

The program's 15 complex activities further overextended the technical and administrative capabilities of the Dominican Government. Implementation plans were hastily prepared (evidently for the sole purpose of satisfying conditions precedent, since these work plans were not subsequently followed).

The early years of the loan have been a period of bureaucratic and political change. Since the agreement was signed, management of the Dominican Government implementing office has changed repeatedly. This turnover was accompanied by repeated changes in program direction and implementation.

The presidential election campaign started about 1 year before the May 16, 1978 election. Dominican Government program resources were diverted to political activities slowing program implementation.

The Mission's Food and Agricultural Development Division advocated hasty approval of vague implementation plans submitted to meet conditions precedent. But Capital Resources Development and the Controller pressed for more details. Food and Agricultural Development's eagerness for progress may have encouraged the Dominican Government to give some conditions precedent short shrift by delaying implementation, deviating from agreed-on plans, and going over budget.

For example, on November 7, 1977, the then Chief of Food and Agricultural Development certified that the Dominican Government's second disbursement request was "technically correct and responsive to the needs of the respective loan elements and activities". Capital Resources Development found the request incomplete on five elements and activities and asked for more information, this was a recurring pattern.

The information provided in response to Capital Resources request confirmed the Mission's opinion that Dominican management of program funds was lax. In April 1978, the Mission cut off loan disbursements pending results of a joint program review by the Mission and the Dominican Government. The review team accepted the Dominican Government's determination that \$4.7 million of the \$10 million in counterpart expenditures charged to the program as of May 31, 1978, were not program related.

The report of the joint review team provided the basis on which the Dominican Government began reprogramming the loan. At present the Mission is reviewing the results of the reprogramming effort. Approval is expected shortly. Even so, the need for careful monitoring by the Mission will continue.

We are not making a recommendation on this point for two reasons:

1) The present management of the Mission was not responsible for the design or pre-agreement monitoring of the loan.

2) The present management of the Mission has taken forceful action to remedy the situation.

"The Mission takes strong exception to the allegations of ineffective monitoring and oversight. This conclusion of the auditor is presumably based on certain cited differences of opinion between Mission offices during loan implementation. The fact that such differences occurred is neither surprising nor unusual. Nor is it undesirable. Operations offices will often approach issues with a different perspective than that of staff offices. The best assistance to Mission management in making intelligent decisions is to have honestly and strongly stated positions by different Mission offices based upon their respective points of view. We welcome such a diversity of opinion and find it healthy rather than a matter for criticism. We further think that it is idle to speculate as to what effect, if any, a particular Mission office's attitude may have had on the Borrower. The Borrower was made aware, through numerous meetings of its representative and Mission management, of our insistence upon compliance with the terms of the loan agreement and good project management.

"With respect to the question of Mission monitoring, we would point out the following:

"A. To date, not one cent of U.S. Government funds has been found to have been misused. The Mission's care in management of U.S. resources is one reason why loan disbursements are behind the original schedule, and, ironically, this in turn is responsible for the conclusion that the Mission's monitoring was not forceful enough.

"B. Constant Mission efforts have resulted in the Borrower's adjusting its own records of counterpart expenditures so as to delete those which were not program related.

"The significance of the second disbursement request in this process has been exaggerated in the Audit Report. The Mission had advised the Borrower on numerous occasions well before December 1977, that it would not accept as counterpart expenditures any items which were not program related. The events in April, involving former employees of the Secretariat (referred to in the Introduction), offered an excellent opportunity for a joint exercise inter alia to review the counterpart account, and the Mission presented this position forcefully to the Borrower. As a result, the Borrower itself adjusted its counterpart account to include only program related expenditures.

"These were some of the many actions that the Mission took during the implementation of this Program. A great deal of thought and effort went into these monitoring activities. As a result, despite the many difficulties listed in the Audit Report, the Mission was able to move the Program along, albeit slowly, to the point where, under the new GODR administration, progress is now well under way. At the same time, the Mission was able to assure against the misuse of any U.S. Government funds and require of the Borrower an appropriate accounting of all counterpart expenditures."

### C. Program Costs

An unfortunate by-product of poor program design and execution is that the Dominican Government's accounts do not show how much the program has cost. Some payments have been accurately accounted for. But most were unacceptable, usually because records were too incomplete to tell what the money had been spent for. Some such items can probably be

accepted once they have been identified. But a great deal of reconstruction must be done before conclusive determinations can be made. Here, in summary is what we found:

Unacceptable Payments	\$4,899,730	66%
Payments not selected for audit	567,920	8%
Payments for acceptable items	<u>1,963,084</u>	<u>26%</u>
Total Payments	<u>\$7,430,734</u>	<u>100%</u>

Most of the acceptable items were loans to small farmers. The nearly \$5 million in unacceptable payments consists of several kinds of transactions. We have broken them down into six broad categories:

Food, drink, and flowers	\$ 6,723
Vehicles not identified with program	231,090
Unitemized payroll costs	2,048,038
Items not justified as program costs	390,334
Cash transfers to other departments	728,208
Cash for unidentified items	<u>1,495,337</u>
Total	<u>\$4,899,730</u>

The \$6,723 of unacceptable counterpart payments for food, drink, and flowers consist of 44 vouchers ranging from \$27 to \$491.

The total cost of all vehicles charged to the program was \$231,000 (all counterpart funds). We were unable to tell which, if any, were used in program-related activities.

A lump sum of \$2,048,035 in counterpart funds was charged to the program as payroll cost. We did not have enough information to relate this figure to specific employees on payroll disbursements.

We did not have enough information to relate other payments totalling \$390,334 to the program. This figure consist of 20 vouchers ranging from \$1,000 to \$78,640.

A total of \$728,208 was transferred by the implementing office to other departments by means of 34 checks ranging from \$434 to \$143,767. Project records do not show how the money was spent by the receiving departments.

The joint review team accepted the Dominican government's determination that \$1,495,337 of administrative expenses were not related to the project. These unacceptable items are still accounted for as project costs by the Dominican government. The 33 trnnsactions involved here ranged from \$2,669 to \$550,000.

Recommendation No. 2

The Mission should advise the Dominican Government to purify program costs by deleting unacceptable items.

Recommendation No. 3

The Mission should advise the Dominican Government to keep an adequate file of supporting documents for all program-related expenditures.

The Mission comments:

"More than \$1,000,000.00 pesos included among unacceptable payments were, in fact, among the \$4.7 million previously determined by the Secretariat of Agriculture to be non-program related. The GODR has, to date, been able to furnish satisfactory documentation with respect to almost all of the balance.

(Auditor's Comment: The Secretariat did identify the items referred to above as non-program related. But the items were not purged from the account and therefore appeared as program costs.)

REPORT RECIPIENTS

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Deputy Administrator - Bureau for Latin America and the Caribbean (LAC), AID/W	1
Mission Director, USAID/Dominican Republic	5
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