UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL

AUDIT OF KENYA
ARID AND SEMI-ARID LANDS DEVELOPMENT
PROJECT
PROJECT NO. 615-0172

AUDIT REPORT NO. 3-615-85-13
May 10, 1985

Regional Inspector General for Audit
NAIROBI

MEMORANDUM

May 10, 1985

FROM: Mervin F. Boyer, Jr., RIG/A/Nairobi

SUBJECT: Audit Of Kenya Arid And Semi-Arid Land Development Project, Report No. 3-615-85-13

TO: Mr. Charles Gladson, Director, USAID/Kenya

The subject audit report contains the results of our review of your Arid and Semi-Arid Lands Development Project. The objectives of our review were to evaluate project progress, compliance with laws, regulations and agreements, and implementation efficiency and effectiveness.

We found that the project's initial problems which caused implementation delays have been resolved and progress is being made toward achieving revised objectives. We have reported 7 areas where we feel improvements can be made (see pages i and ii for summary). Two of the areas, access to project vehicles and tax free status of AID commodities, are pervasive in other USAID/Kenya projects. Two of the 7 recommendations, Nos. 2 and 6, are considered closed because of the action you have already taken.

Please provide me within 30 days, and monthly thereafter if required, of the actions being taken to implement the recommendations. Thank you for the cooperation given to my staff during the audit.

Enclosures: a/s

EXECUTIVE SUMMARY

The Office of Inspector General made an audit of the Kenya Arid and Semi-Arid Lands Development Project (No. 615-0172). The objectives of our audit were to determine whether project progress was satisfactory, AID resources were efficiently and effectively used, and applicable laws, regulations and agreements were complied with.

Project agreement No. 615-0172 was signed on August 30, 1979 and is due to terminate on December 31, 1986. The overall project purpose is to assist the Government of Kenya (GOK) to launch an accelerated development program in arid and semi-arid lands and to improve and preserve the agricultural production base in the Kitui District of Kenya. Most of the technical assistance and project oversight was being provided by Louis Berger International, under a "Borrower/Grantee" contract with the GOK.

Over its life, the project will cost $20.2 million. AID will finance $13.0 million and the GOK and the communities from the Kitui District will contribute the remainder (equivalent to $7.2 million). As of December 31, 1984, obligations were $13.0 million and disbursments were $5.7 million.

The project got off to a slow start because of contracting difficulties, delays in construction of housing, and poor design. These problems have now been resolved and satisfactory progress was being made towards achieving the revised objectives of the project. During our field visits, we saw terracing, rock catchments, subsurface dams, a livestock improvement subproject, and functioning village polytechnic institutes. The subprojects were benefiting the target population in the Kitui District and were helping to improve the agricultural production base. The project was also assisting the GOK to launch an accelerated development program in arid and semi-arid areas.

We found the following problems that need to be corrected:

- -- Subprojects need to be better planned and implemented to make them more efficient and economical (Page 4).

- -- A monitoring system needs to be completed, and a computer bought, to accumulate baseline information and measure project progress (Page 6).

-- The Ministry of Community and Social Services needs to implement the adult education component by hiring a facilitator (Page 8).

-- Project financed vehicles need to be controlled and made available to project technicians (Page 10).

-- Problems related with duty free entry and taxation of project financed goods need to be resolved (Page 12).

-- Periodic accounting and reporting needs to be developed for participants trained under this project (Page 14).

-- About $1.8 million set aside for "contingencies" are excessive and need to be reprogrammed. (Page 16).

Seven recommendations are included in the report to correct the deficiencies noted. USAID/Kenya has implemented 2 of the recommendations, therefore, recommendation numbers 2 and 6 will be considered closed when the report is published.

USAID/Kenya officials reviewed a draft of this report. Their oral and written comments were considered in the report as considered necessary and a copy of their comments is included as Appendix 1.

Office of The Inspector General

AUDIT OF KENYA
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AUDIT OF KENYA
ARID AND SEMI-ARID LANDS DEVELOPMENT PROJECT
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PART I--INTRODUCTION

A. Background

Three zones of Kenya are considered arid and semi-arid lands (ASAL). Average rainfall ranges from 200 to 800 millimeters per year. The zones cover 82 percent of Kenya's land area and support nearly 20 percent of the population and 50 percent of the livestock. Kenya's ASALs have severe natural resource limitations, rising population pressure, and inadequate management of the existing resource base. While demand for increased agricultural production is rising, land capability to yield food and other crops continues to decline making the long-term outlook ominous.

The ASAL development project (No. 615-0172) was signed on August 30, 1979 to address the above problems. The project purpose is to assist the GOK to launch an accelerated development program in the ASALs and to improve and preserve the agricultural production base in the Kitui District of Kenya.

From August 1979 to September 1984 the project had three goals: (1) planning for ASAL development; (2) data collection, and analysis; and (3) soil and water conservation interventions in Kitui District. During this time, the project experienced a series of problems including: (a) difficulties in contracting for technical assistance, (b) establishing a workable administrative framework with participating ministries, (c) delays in construction of staff housing, (d) nonavailability of vehicles for contract technicians, (e) uneconomical features of the Host Country contracts, and (f) weak logistical support by the GOK. In addition, there were certain defects in project design, e.g., high number of expensive feasibility studies and high level of expensive technical assistance.

In September 1984 the project's thrust was changed both in terms of financial resources and planned activities. The revised project consists of five different components: (a) water conservation and development, (b) soil and moisture conservation, (c) livestock and range management development, (d) education and community organizational support, and (e) program coordination and implementation. The five component subactivities cover the gamut from policy support to construction.

Originally, the project was to cost about $18.6 million. As redesigned, the project will cost about $20.2 million. Of this amount, A.I.D. will contribute $13.0 million and the GOK and communities of Kitui District will contribute the remaining local currency equivalent of $7.2 million. As of December 31, 1984, total obligations for the grant were $13.0 million; disbursements were $5.7 million; and there were $7.3 million in unliquidated obligations.

B. Audit Objectives And Scope

This is the second audit of the project. The first audit was generally limited to a review of the Louis Berger International Inc. (LBII) Contract supporting this project and two projects in Somalia.

This review generally covered the period from May 1983 through December 1984. The objectives of this review were to determine (a) how well the project was progressing towards meeting stated goals and objectives; (b) whether AID resources were being used as planned and in conformance with applicable laws, agency regulations and the grant agreement; (c) whether the project was being implemented in the most economical, efficient, and effective manner; and, (d) if recommendations made in prior audits and evaluations were properly implemented. The field work was performed between December 1984 and February 1985.

We interviewed GOK and USAID/Kenya officials. We examined progress reports, evaluation reports, audit reports and related workpapers, correspondence and financial records. We made field visits to the Kitui District, and surrounding areas, and visited rock catchments, subsurface dams, polytechnic institutes, and livestock improvement subprojects. During the period June 1, 1983 to December 31, 1984, a total of $2.4 million was disbursed. Our sample of costs totalled $378,450.

Our audit was made in accordance with the Comptroller General's Standards For Audit of Governmental Organizations, Programs, Activities and Functions. Accordingly, we included such tests of the program, records, and internal control procedures as we considered necessary in the circumstances.

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PART II--RESULTS OF AUDIT

A. Findings And Recommendations

1. Subproject Planning Needs To Be Improved

The agreement requires the project to be implemented diligently, efficiently, and in conformity with sound management practices. We found subprojects are not being implemented as expeditiously or economically as possible. The major cause is lack of adequate advanced planning. Better planning will make implementation more efficient and economical resulting in more subprojects for the money and effort.

RECOMMENDATION NO. 1

> We recommend that USAID/Kenya, through the Government of Kenya, establish procedures to improve subproject planning.

Discussion

According to Annex 2 of the grant agreement, the GOK is to "....carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein...."

As changed, the project is providing assistance to residents in the Kitui District to help them implement development activities such as rock catchments, dams, wells, livestock dips etc. Assistance is to be provided in the form of materials, training and technical assistance. The project is designed to accomplish as many subprojects as possible within the time frame and money available.

Based on our review of selected subprojects we feel that more can be done with better planning at the outset. We found that water catchments could be better designed to increase the volume of water they can collect and store, thus increasing the availability of water to the communities. For example, the

Karatani and Toambi rock catchments could have been made larger by blasting some of the rock away. We found that the Mwalangi Polytechnic subproject could have been implemented quicker and at reduced costs by providing proper quantities of materials at the outset of the construction activities.

Planning a food for work component into some activities as an additional incentive to get local inhabitants to work on the project could stimulate more participation and increase the number of subprojects that might be done.

Planned training at the beginning of the project would have improved project implementation. For example lack of training resulted in questionable cement mixes being used on some construction. This will eventually result in increased maintenance costs.

Planning training through the polytechnic institutes in the communities could provide improved project construction and could be used to instill the need for maintenance of the subprojects. For example farmers could be trained to properly maintain the terraces they build.

We believe that better planned subprojects need to be stressed and emphasized so they are implemented more quickly, efficiently and economically. The impact of the project can be greatly enhanced by an improved subproject planning.

2. A System To Monitor The Project Needs To Be Completed

Under the revised work plan a monitoring system was to be established to accumulate baseline data and measure project progress. An LBII technician started to design such a system, but departed Kenya prior to its completion. A replacement has not been contracted. Further the computer needed to operate the system has not been purchased. Without the system, a basic management tool that could be instrumental in improving the development aspects of the project is missing.

RECOMMENDATION NO. 2

We recommend that USAID/Kenya, in conjunction with the Government of Kenya, establish a computerized monitoring control system.

Discussion

The project work plan required that the project have a monitoring component. The monitoring system was to address the implementation rate of each activity, beneficiaries of the projects, effectiveness of new techniques, employment generation, impact of the program, incomes generated by the program, identification of bottlenecks and potential new directions. Data collected will enable planners to propose sound projects.

The GOK was not able to find a qualified Kenyan to take over implementation of the monitoring system responsibilities to replace the LBII technicians. USAID/Kenya and the GOK originally considered appointing a Peace Corps volunteer, however, a qualified volunteer could not be located. In response to our draft report, USAID/Kenya's project manager indicated that a qualified expatriate had been identified and that contract negotiations were underway. The individual is expected to accept the position.

The LBII technician wanted to install the system on a micro computer for information processing and analysis. Initially the purchase proposal for the computer was not accepted by project management. However, a consultant was hired to make a feasibility study. The study confirmed the feasibility of establishing a regional computer data base. This information would include reference map grid coordinates with political boundaries, population, water points, rainfall, topography, livestock densities, soil types, infrastructure development, and other available information as considered useful in project planning, design, monitoring and evaluation. However, at the time of our review, the computer had not been purchased.

USAID/Kenya needs to see that the computer is bought and the monitoring system is established for the project. Such a system would be an excellent management tool. It would accumulate and analyse information needed at the different stages of the project to determine economic benefit, measure progress towards stated goals, plan present and/or future project direction, and evaluation project activities.

USAID/Kenya Comments.
In response to our draft report, USAID/Kenya indicated that a monitoring specialist had been hired and had begun work. Also, a computer was being procured for his use. In view of the actions taken, the recommendation will be considered closed when this report is published.

3. The Ministry Of Community And Social Services Needs To Implement The Adult Education Component

The adult education component of the project was behind schedule. Education material for adult education had not been produced or disseminated as required by the annual work plan. The reason was that the Ministry of Community and Social Services (MOCSS) had not appointed a facilitator for the adult education component. A facilitator is needed to implement the annual work plan and to motivate and influence attitudinal changes in the adult population. Without a facilitator, the project will not meet its objectives to train local community inhabitants to plan, implement, and maintain their development subprojects.

RECOMMENDATION NO. 3

> We recommend that USAID/Kenya in conjunction with the Government of Kenya (a) appoint a facilitator for the adult education component of the project and ensure that this component is started as planned and (b) expand the use of the polytechnic institutes in the community adult education programs.

Discussion

The broad objective of the project's MOCSS component is to provide educational, organizational and material support to the ASAL development program. The project is to develop effective channels of communication between the technical personnel and local people through seminars and adult education centers. Technical assistance for subprojects is to be presented and explained in a manner that the local people can understand.

The annual work plan recognized that, to succeed, educational support to the project must take place. It noted that past projects did not succeed because the beneficiaries regarded them as government projects, rather than their own. As a result, the plan calls for local communities to be mobilized, organized and given informal educational support so they can participate in the planning, implementation and maintenance of ASAL program subprojects. This education and dissemination of information is to take place through the self-help groups, adult education centers, and youth training through polytechnic institutes. This full participation in subprojects will make the local population identify themselves with the subproject and will contribute towards the success of the program. If done effectively it should lead to a self-sustaining development effort.

The key to the MOCSS is the facilitator who will be responsible for implementing the workplan. Until the MOCSS appoints the facilitator, the objectives of the adult education program will not be met.

During our field visit, we saw instances supporting the need for integrating education into the subprojects. For example, we saw one dam needing maintenance (desilting). We were told that an ox-scoop had been loaned to the community for the job because of the muddy conditions. The community would not use the ox-scoop because it preferred a tractor. However, a tractor was not practical. Training in desilting may have solved the problem. Another example is land terracing. Contractor reports show wrong procedures being used by farmers defeating the purpose of terracing. We also saw opportunities to correlate the operations of village polytechnic institutes with informal adult education.

The project is to provide assistance to the village polytechnic institutes with emphasis on educating the youth. This assistance will range from construction of building expansions to financing needed equipment. We visited two institutes and noted an urgent need for sewing machines, electric drills, carpentry equipment, etc. Without this equipment the institutes can't function properly.

Possibilities exist for expanding the use of the institutes in two ways. One way would be to coordinate AID assistance to the polytechnic institutes with informal adult education of the local population. For instance, the farmers need to maintain their terraces after the project ends. This can be done with "jembes" (a hoe-like tool). These tools can easily be made by the farmers themselves, at the institutes--if taught how. Such an informal education concept is presently being applied in an AID public workshop project in Costa Rica. An alternative would be to have the institutes produce jembes and sell them to farmers creating a source of revenue for the school. Assistance to polytechnic institutes can be better integrated into the educational and development aspects of the project.

A facilitator is needed if the project is to meet its objectives in adult education. USAID/Kenya has been working with the GOK to see that this position is filled. The adult education program should also be integrated into the polytechnic institutes to expand the use of these organizations for project activities.

4. Contractor Personnel Do Not Have Ready Access To AID Financed Vehicles

The project agreement requires that project financed resources must be used on project related activities until completion. In our previous audit report No. 3-615-83-10, we found that project financed vehicles were not available to contract technicians for project use. Once again, we found that contract technicians still do not have ready access to those vehicles. This chronic problem exists because the ministries continue to control the vehicles often placing a higher priority on non-ASAL project activities. Lack of vehicles makes technical assistance ineffective and uneconomical, reduces the level of project monitoring and wastes project funds.

RECOMMENDATION NO. 4

We recommend that USAID/Kenya have the Government of Kenya transfer responsibility for project vehicles to the control of the Chief of Party of Louis Berger International Inc. and his Government of Kenya counterpart. If this is not done within a reasonable period of time, funding of vehicle costs should be suspended.

Discussion

A total of 13 vehicles have been financed under the ASAL project--8 Landrovers, 3 pick-up trucks, and 2 seven-ton trucks. According to Section B.3 of the grant agreement, these vehicles will "....unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and therafter will be used so as to further the objectives sought in carrying out the Project..."

AID originally purchased eight Landrovers for project technicians' use. These vehicles upon arrival were turned over to the GOK and assigned to several ministries. As a result, the vehicles became virtually inaccessible to the project technicians. Our previous audit addressed this problem. Based on our recommendation, the project vehicles were transferred to Kitui with the understanding that technical advisors would have first priority. However, the contract technicians still do not have ready access to vehicles. Technical advisors assigned to the Ministry of Agriculture and Livestock Development (MOA&LD)

had the most difficulty in obtaining vehicles. They must request vehicles at least one day in advance. Even then vehicles are not always available. As a result, the technicians must use their personal cars or a vehicle assigned to the project coordinator of the Ministry of Finance and Planning if available.

We were told that GOK drivers abuse project vehicles and that they use vehicles for personal purposes. We attempted to verify the allegations but were unable to do so. Possible evidence of abuse is excessive vehicle maintenance costs paid with project funds as well as downtime. For instance, over $64,000 was paid during a nine month period (March to December 1984), from project funds for vehicle maintenance and repairs. During our field visit we found that 4 of 8 Landrovers and 1 of 3 pick-ups delivered new in September 1984 were down for repairs.

Unless project purchased vehicles are placed under the direct control of the project coordinator and technical advisors, project technicians will continue to have problems in obtaining vehicles. In addition, maintenance and repair costs will remain high, excessive downtime will be experienced, and the vehicles will need to be replaced prematurely.

We believe that the vehicles should be placed under the direct control of the contractor. The contract would also provide operating costs which would ensure adequate funds for fuel.

5. The GOK Did Not Recognize Tax Free Status Of Project Commodities

AID commodities have been delayed in customs because the GOK has not recognized their duty free status as stipulated in the project agreement. Also, locally procured commodities were not exempted from sales taxes. Two factors accounted for this: (a) the GOK gave a new interpretation to its tax law, and (b) the tax free status of AID financed commodities as well as personnel effects, vehicles, and other items imported by technical assistance contractors were not published in the Kenya Gazzette. Time was wasted getting the commodities released, commodities were not available for project use and unnecessary demurrage was paid.

RECOMMENDATION No. 5

> We recommend that USAID/Kenya and the Government of Kenya develop procedures to ensure that the duty and tax status of AID financed commodities is honored, including all personal effects, vehicles, and other items imported for the project and/or by the contractor.

Discussion

The project agreement and the LBII contract stipulate that commodities purchased for the project or imported by the technicians will be free from GOK duty and sales tax. Section B.4 of the project agreement states:

> "(a) This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee.
>
> "(b) To the extent that (1) any contractor, including any consulting firm, any personnel or such contractor financed under the Grant, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant."

Although the agreement exempted project purchased commodities from customs duty or sales taxes, the GOK did not always recognize this tax exempt status. As a result, the project encountered unnecessary delays for commodities purchased locally and for imported commodities cleared through customs.

To illustrate, in August 1984, an LBII technician's personal car remained at Mombasa port, uncleared, for more than one month. During this time, daily demurrage charges accrued. The GOK failed to recognize his duty free status even though he was a member of the technical advisory team. On several occasions, the technician left his project duties in attempts to clear his car through customs. As a result, valuable time was wasted and project implementation was delayed. A similar delay was also encountered in processing the project's three pick-up trucks through customs in August/September 1984.

Failure to provide tax exempt status of locally produced commodities also impeded implementation of the water conservation component for two months. This component needed locally produced cement mixers and vibrators. These items could not be purchased because the vendor would not sell them tax free without GOK authorization. The MOFP was asked to resolve this problem, but, it took over two months to do so.

The problem transcends the ASAL project as several other USAID/Kenya projects have experienced similar difficulties. For example, a micro computer purchased for the Rural Private Enterprise Project remained at the Nairobi Airport for several months because the GOK insisted that the project pay duty. The GOK refused duty free exemption for a personal vehicle of a host country contractor working on the On Farm Grain Storage Project. The Chief of Party of the Kiboko Range Research Expansion Project had made arrangements to purchase three Honda motorbikes. However, the Honda dealer informed him that they could not be purchased duty free.

Two factors accounted for the problem. First, the GOK had given a new interpretation to two sections (No. 255 and 256) of its tax law. This raised questions regarding the duty free status of AID financed and contractor goods. As a result, the GOK Custom Office refused to honor the free entry privileges of the AID assistance as stipulated in the agreements and contracts. Second, the GOK had not published, in the "Kenya Gazzette" the tax free status of AID financed commodities. As a result, vendors were not aware that sales taxes were not owed on project purchased commodities.

In summary, commodities are detained by customs delaying their availability for project use and resulting in additional storage charges. Also, the time needed to straighten out each incident wasted technician's time.

USAID/Kenya has spent a great deal of time researching the legal technicalities, discussing the problem with GOK, clearing vehicles and commodities through customs, and trying to find a more permanent solution to the problem. Despite these efforts, the problem persists.

6. Information On The Participant Training Activities Was Not Readily Available

Since the project began, USAID/Kenya has financed 19 participants with ASAL funds. AID policies call for returned participants to work on development activities and for USAID/Kenya to follow them after their return. We were unable to determine what has happened to returned participants because USAID/Kenya did not have a follow-up system in place for the ASAL project. Our efforts to get the information from the GOK were ignored. Without such information, USAID/Kenya will not be able to monitor the activities of returned participants. Unless the participants are kept working on development activities, the cost of their training could be wasted. Accordingly, we do not believe USAID/Kenya should finance any new participant trainees until the GOK has accounted for returned participants.

RECOMMENDATION NO. 6

> We recommend that USAID/Kenya not finance any new participant trainees under the Arid and Semi-Arid Land project until: (a) the Government of Kenya accounts for returned participants and where they work; and, (b) USAID/Kenya has determined that they are used in development related activities.

Discussion

The Agency encourages participant training for three reasons: to develop staff for AID financed projects, to strengthen host country institutions, and to establish local training capacity. In effect, the participant training is a vital element of foreign assistance. Its principal goal is to develop people who will (a) actively participate in developing their country, and (b) continue development activities after the U.S. ceases to provide assistance.

According to AID Handbook 10, AID financed participants are to work in development activities after they return to their country. USAIDs are to maintain a follow-up system for returned participants to ensure they are properly used and to evaluate effectiveness of training.

Since 1981, USAID/Kenya has financed, with ASAL project funds, 19 GOK officials who attend(ed) training programs in the U.S. These participants are in fields such as engineering, agronomy, planning, photo inspection, etc. They attend(ed) different universities, like Cornell, University of California, Texas A & M, University of Arizona, etc. Under the revised ASAL program, USAID/Kenya has earmarked $1.2 million to finance trainees that are presently in the U.S. and to send additional participants to AID financed study programs.

At the time of our audit, information on returned participants was not available. In December 1984, we asked the GOK through USAID/Kenya to provide us with information on returned participants. As of March 31, 1985 the GOK had not responded to our request. Another related problem was that USAID/Kenya had not developed a follow-up system for participants financed under this project. Therefore, procedures for following up were never established. Unless returned participants are periodically accounted for, and followed in a systematic manner, USAID/Kenya cannot comply with agency policies.

Our office in Washington (RIG/A/W) recently issued Audit Report No. 85-08, dated December 7, 1984, covering AID's participant training program worldwide. The report points out that, like USAID/Kenya, other Missions were not systematically following participants after their return. According to this report, the Office of International Training (OIT) was developing an integrated participant management system and a comprehensive evaluation system. This will be a micro computer system which will be designed to monitor all training activities throughout the life of each training program. Once the sytem has been fully developed and implemented, it should help USAIDs to follow-up and evaluate their participant training programs. Therefore, we are not including a recommendation to develop a system because we assume the system being designed by OIT will be adequate for USAID/Kenya's needs.

In summary, USAID/Kenya should not finance any new participant trainees until the GOK has accounted for those participants who have returned and has made a determination they are being used on development projects.

USAID/Kenya Comments

In response to our draft report, USAID/Kenya indicated that the GOK had accounted for the returned participants and that USAID/Kenya had verified that the participants are involved in development related activities. In view of the action taken, the recommendation will be considered closed when this report is published.

7. Project Funds Need to Be Reprogrammed

As of December 31, 1984, an estimated $1.8 million of grant funds needed to be reprogrammed because of two factors: (a) the project modifications made in early 1984, and (b) devaluation of the Kenyan currency (Shillings). Some funds were reprogrammed on February 21, 1985 however funds set aside for "contingencies" are still too high. In addition, it appears doubtful that all reprogrammed funds will be disbursed by the project activity completion date (PACD) therefore a contingency line item is questionable. As a result funds will be sitting idle that can be put to current use.

RECOMMENDATION No.7

We recommend that USAID/Kenya reprogram the $1.8 million contingency funds and any other funds deemed to be excess.

Discussion

As of December 31, 1984, a total of $13.0 million had been obligated for technical assistance ($8.9), commodities ($.6), participant training ($1.0), and staff housing ($2.5). The PACD is December 30, 1986.

As of December 31, 1984 the original budget called for the completion of a number of feasibility studies and provision of a high level of LBII technical assistance to several ministries and Kitui communities. Some studies were eliminated and the level of technical assistance was significantly reduced. Also, about $2.5 million had been earmarked for staff housing. However only $264,425 had been spent and total disbursements are not expected to exceed $700,000.

The need for program realignment was created by two factors: (a) project modifications, and (b) the currency devaluation of Kenya Shillings, which went from KSH 8.3 per US $1.00 in 1979 to over KSH 15 per dollar at our audit cut-off date.

The project was officially modified on February 21, 1985. The new funding plan (in millions of dollars) is as follows: technical assistance ($4.3), operating expense ($1.9), commodities ($2.5), participant training ($1.2), in-country training ($.2), studies ($.3), construction ($.7), evaluations ($.1), and contingency ($1.8).

Devaluation of the shilling has continued. The contingency factor, at $1.8 million, is excessive since it appears that, even with the revision, funds will not be fully disbursed by the PACD. Thus, further reprogramming of funds is needed.

At the Exit Conference, USAID/Kenya officials agreed with our observations and general conclusions. Initially, we were planning to recommend immediate reprogramming of funds. However, USAID/Kenya told us that a comprehensive project evaluation would take place within six months. Thus, we have not established any time frame for reprogramming the funds.

B. Compliance And Internal Controls

1. Compliance

We noted three compliance exceptions: (a) the GOK was not observing the duty free provisions of the grant agreement and LBII contract; (b) responsibilities for participant training follow-up were not being fulfilled; and (c) the project was not receiving adequate publicity as required by the Foreign Assistance Act.

Other than the conditions cited above, which have either been or will be corrected by management, nothing came to our attention that would indicate that untested items were not in compliance with applicable laws and regulations.

2. Internal Control

Except for not establishing an effective monitoring system, the internal controls we tested were found to be appropriate and were operating in a satisfactory manner.

AUDIT OF KENYA
ARID AND SEMI-ARID LAND DEVELOPMENT PROJECT
PROJECT NO. 615-0172

PART III

APPENDICES

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UNITED STATES GOVERNMENT

memorandum

APPENDIX 1

DATE: April 24, 1985

REPLY TO ATTN OF: Charles Gladson, Director, USAID/Kenya

SUBJECT: Draft Audit Report on ASAL Project (No. 615-0172)

TO: Mervin Boyer, Jr. RIG/A/N

Thru: Robert Henrich, Controller, RFMC

I have two comments on the draft ASAL audit report:

1. I suggest that audit recommendations # 2 (p. 8) and # 6 (p. 20) be deleted from the report. With regard to # 2, a monitoring specialist has been hired and has begun work, and a computer is being procured for his use. With regard to recommendation 6, the GOK has accounted for the returned participants and we have verified that they are involved in development related activities. Documentation to this effect can be provided by our office.

2. I feel that the issue raised in recommendation # 5 (p. 16), i.e., the status of import duties and other taxes on AID financed commodities, needs to be examined more closely. In general, I feel that the recommended gazetting of the tax free status of such commodities may be helpful. However, I can foresee a possibility of such a general requirement being counterproductive, e.g., in some instances imported goods might actually be held-up at customs because they aren't gazetted, whereas they might have been released if such a requirement were not in effect. The implications of this recommendation need to be looked at closely by USAID Kenya as a whole. I don't believe the auditors have closely examined the implications of this recommendation.

   I would suggest that recommendation # 5 be re-worded to the effect that the issue of gazetting be carefully explored to determine if it is desirable and workable. If a positive determination is reached, then it should be required for all future AID projects.

We have no comments on the other recommendations.

List of Report Recommendations

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RECOMMENDATION No. 5 12

We recommend that USAID/Kenya and the Government of Kenya develop procedures to ensure that the duty and tax status of AID financed commodities is honored, including all personal effects, vehicles, and other items imported for the project and/or by the contractor.

RECOMMENDATION NO. 6 14

We recommend that USAID/Kenya not finance any new participant trainees under the Arid and Semi-Arid Land project until: (a) the Government of Kenya accounts for returned participants and where they work; and, (b) USAID/Kenya has determined that they are used in development related activities.

RECOMMENDATION No.7 16

We recommend that USAID/Kenya reprogram the $1.8 million contingency funds and any other funds deemed to be excess.

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