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Auditor General

INTEGRATED AGRICULTURAL PRODUCTION AND MARKETING PROJECT
 LOAN AND GRANT AGREEMENT NO. 492-T-044
 PROJECT 492-0302
 PHILIPPINES

The United States is providing over \$9.0 million in financial support for a joint effort by the Government of the Philippines and Kansas State University to enhance the capacity of the Philippines to achieve increased agricultural productivity. This effort, termed the IAPM, is encountering several problems (outlined in this report) that must be corrected if the project is to achieve this goal.

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EXECUTIVE SUMMARY

I. Introduction

At the request of USAID/Philippines, the Auditor General of A.I.D. initiated a limited scope audit of Kansas State University's (KSU) contribution to the Integrated Agricultural Production and Marketing Project (IAPM) in the Philippines. The initial audit work at Kansas State University and A.I.D./Washington (AID/W) indicated that the project was encountering problems that transcended KSU's involvement. As a consequence, the audit scope was expanded to include a review of the entire project. This report summarizes the results of that review.

The Integrated Agricultural Production and Marketing Project, financed in part by the United States^{1/}, is an effort by the Republic of the Philippines (GRP) to strengthen its agricultural sector by improving management and academic capabilities relating to agriculture. Specific emphasis is given to further development of GRP institutional capacity in the policy, academic, production/marketing and extension areas. The ultimate goal of this effort is to improve the efficiency and effectiveness of agricultural production.

The project has four main thrusts:

1. Academic--which is directed at upgrading two Philippine universities' capabilities in various agricultural disciplines.
2. National Policy--which is directed at improvement of GRP agricultural policy evaluation and planning capabilities.
3. Technological--involves the development of combined technological systems for the production, processing and marketing of Philippine agricultural products.
4. Extension/Outreach--designed to improve existing extension programs in order to provide better services to cooperative marketing agencies, agribusiness enterprises and the farming community.

^{1/} United States Government financing for the first three years of this five-year project totals \$9,715,000, of which \$6,715,000 is a grant and \$3,000,000 is a loan at 2 percent interest for the first 10 years and 3 percent thereafter, with a 10-year grace period and a 30-year payback period. The estimated Philippine contribution is \$11,600,000 for the first three years and \$20,250,000 over the full five-year period.

The complexity and comprehensiveness of this project is illustrated by the fact that the project requires six GRP agencies and institutions, in addition to a major U.S. university, to act as primary action and coordinating entities in project activities:

1. National Economic Development Authority (NEDA)
2. Ministry of Agriculture (MOA)
 - Office of the Assistant Minister
 - Bureau of Agricultural Extension (BAEX)
 - National Food and Agricultural Council (NFAC)
3. University of the Philippines at Los Banos (UPLB)
4. Central Luzon State University (CLSU)

On the American side, aside from A.I.D., Kansas State University has been deeply involved with the project, participating in preproject activities as early as January 1976. In August 1977, KSU was awarded a contract to provide consultative services and to conduct a participant training program for the IAPM project. Specifically, KSU contracted to provide:

- Technical assistance through 14 long-term U.S. advisors and short-term consultancies.
- U.S. graduate school training for 95 M.S. and Ph.D. candidates and 144 non-degree participants.
- Professional advisory services regarding the procurement and construction of a food and feed processing plant at one GRP university, library equipment at two GRP universities and additional computer capacity at the Ministry of Agriculture (MOA).

These contractual obligations make KSU's involvement in the project a crucial factor to its success or failure. (Page 4)

II. Scope

In our examination, we have sought answers to the following questions:

1. Has the evolution of the project from initial conception to present level of activity reflected the efficient and effective use of taxpayer's dollars?
2. Does the project, as designed and presently implemented, have a reasonable chance of achieving meaningful results in a reasonable time frame and in accordance with basic A.I.D. policy?
3. Have contractual obligations assumed by Kansas State been fulfilled to the extent possible?

In seeking answers to these questions, our review included visits to the Philippines and Kansas State University, discussions with cognizant KSU

and A.I.D. personnel, and an examination of AID/W and USAID project documentation. (Page 3)

On completion of our audit, a draft of this report was submitted for comment to the Asia Bureau and USAID/Philippines (USAID/P) on March 27, 1979, with a deadline of April 17, 1979. Subsequently, the Mission requested an extension of the deadline to May 1, 1979. On April 11, 1979, the Auditor General's Office of Policy, Plans and Programs (AG/PPP) informed the Asia Bureau, by telephone, that it would have no problems with such an extension. On April 25, 1979, the Auditor General (AG) was informed that the Bureau had turned down the Mission's request. Subsequent to April 25, 1979, a draft copy of the Mission's unsigned and undated detailed comments was finally provided to the auditor. To the degree necessary, we have taken their comments into account.

III. Conclusions

Major Conclusion #1 - Performance under the contract has been characterized by inefficient and ineffective management.

There have been recurring misunderstandings between USAID/P, the GRP and KSU officials on such critical issues as job descriptions, personnel qualifications for long-term advisors, availability of advisors, KSU's role in the participant training program and the amount of and method by which KSU is to receive reimbursement. This is reflected in the implementation slippage in the schedule of all four subprojects:

- Academic, 70% behind.
- Policy, 50% behind.
- Extension/Outreach, 40% behind.
- Technological, 20% behind.

The problems encountered in the GRP-KSU-USAID/P relationship have been compounded by the lack of cooperation and support on the part of KSU's home campus Department of Agriculture and its Office of International Agricultural Programs. In addition, our audit indicated that USAID/P has been remiss in not insisting forcefully on corrective action by KSU. (Page 5)

Major Conclusion #2 - The rate of progress toward stated objectives is at a decidedly slower rate than anticipated or that can be considered satisfactory.

It will be difficult if not impossible to achieve the objectives for which A.I.D. has provided over \$9 million for the first three years of the project. Even if all the problems identified by our audit were greatly mitigated in the immediate future, there would be insufficient time to regain the ground already lost before the three-year period is up.

A joint Republic of the Philippines and United States evaluation of the IAPM project has recently been completed. This evaluation report was not available to us at the time our audit report was finalized. However,

the draft Mission comments stated that the evaluation resulted in an agreement in principle to modify the project to compensate for lost time. We believe that such a modification, if it is to lead to improved project results, must result in improved KSU performance under the contract, more effective USAID/P and Asia Bureau review of project developments and a careful assessment as to the capacities of all concerned parties--KSU, RP and A.I.D.--to deal with a project of such an intricate nature. (Page 5)

Major Conclusion #3 - The IAPM project development and approval process was characterized by insufficient attention by USAID/P and the Asia Bureau to KSU's capacity to perform under the contract.

The project received oral approval by the A.I.D. Administrator and Deputy Administrator prior to the submission of required review papers (Project Review Paper and Project Paper). The effect of this action was to abbreviate normal A.I.D. project review procedures and to create a situation of planning a project that had already been given top A.I.D. management approval before the formal approval was forthcoming. Subsequent problems in program management can be traced, in part, to this abbreviation of A.I.D.'s planning process. (Page 14)

In addition, the choice of Kansas State University by single source selection cannot be justified in terms of good management practice, nor by KSU performance to date. KSU had neither predominant capability nor unique qualifications that necessitated a single source selection. KSU's role as a broker or coordinator for advisory or training services could have been performed by other U.S. land-grant institutions. Moreover, KSU's performance to date indicates that the same services could have been supplied by others, possibly in a more expeditious manner. We believe that this ill advised use of the single source selection process made it impossible for the Agency to have a reasonable assurance that the contract was awarded to the most qualified institution at the most reasonable cost. (Page 16)

Major Conclusion #4 - The methods and procedures employed by USAID/Philippines to fund IAPM project activities prior to authorization of the project and subsequent use of IAPM funds to finance participants for another project, indicate a serious disregard for financial discipline and a failure by the USAID and Asia Bureau to treat the project as a discrete A.I.D. undertaking, as defined in Handbook 3, "Project Assistance."

Another USAID/Philippines project, Small Farmer Income and Production, was charged \$225,000 for IAPM activities. These activities were initiated prior to February 8, 1977, the date the IAPM project was authorized. The \$225,000 was deallotted from the Small Farmer Income and Production project and reallocated to the IAPM project after February 8, 1977.

Use of the IAPM funds to finance 35 short-term participants and the long-term advisor for the Cooperative Marketing Project is a further example of financial impropriety related to the IAPM project. The Cooperative

Marketing Project, at the time this "financial manipulation" took place, had not yet been funded and IAPM, now funded, was used as a convenient mechanism to get around this roadblock. Thus, the ill-advised process of charging an approved project for activities that are an integral part of an unfunded project was perpetuated. (Page 17)

IV. Recommendations

As a result of our audit effort, we recommend that the Agency take the following actions:

Recommendation No. 1

We recommend that the Assistant Administrator, Asia Bureau, assure that a thorough analysis of the project is completed in a timely fashion and that necessary corrective action is taken. This analysis should review the adequacy of management actions reportedly completed after December 1, 1978, and include specific determinations as to the following:

- That the project objectives and goals are still achievable and compatible with current GRP plans.
- That delineation of project objectives and goals include detailed work plans and time phased progress benchmarks.
- That an effective progress reporting system within USAID is established to properly supervise performance and monitor project implementation.
- That the review of the contract that has taken place and any amendments resulting therefrom are sufficient to bring about an adequate understanding by and between the parties as to their respective responsibilities, duties and obligations thereunder.
- That any restructuring of the project be accomplished with a view towards having the project or portions thereof benefit the small farmer or poor majority in a more direct and prompt manner.

The Assistant Administrator should ascertain if sufficient corrective action has been taken on these points to justify continuation of the project. If it is determined, as a result of

the analysis, that the project should not continue, the Assistant Administrator should take action to cancel A.I.D.'s financial commitment to the Government of the Republic of the Philippines for this project.

Recommendation No. 2

We recommend that the Assistant Administrator, Asia Bureau, arrange with the Government of the Republic of the Philippines for Kansas State University to subcontract with other educational institutions as necessary to fulfill Kansas State University's obligation to provide advisors under the contract with the Government of the Republic of the Philippines with the clear understanding that Kansas State University will not be paid for Kansas State University's indirect cost rate applied to sub-contractors' salaries and fringe benefits.

Recommendation No. 3

We recommend that USAID/Philippines arrange (through the Government of the Republic of the Philippines) for the Kansas State University's Home Office support required to implement the project. A separate Integrated Agricultural Production and Marketing project office, under the aegis of the President of the University, should be considered as one of the alternative means to administer the project. Performance of the present Home Office staff responsible for project administration and support should be reviewed on an individual basis by the Government of the Republic of the Philippines and USAID/Philippines to determine if Kansas State University should be requested to replace any of the incumbents.

Recommendation No. 4

We recommend that USAID/Philippines arrange with the Government of the Republic of the Philippines for a review of Kansas State University charges for the participant training program and to determine if the charges are appropriate in accordance with the contract. The review should include a Kansas State University statement of costs certified by an independent public accountant.

Recommendation No. 5

We recommend that USAID/Philippines arrange for the Government of the Republic of the Philippines to have Kansas State University explain or justify the telephone

and reproduction charges to the Integrated Agricultural Production and Marketing contract to ensure that these expenses are eligible for reimbursement under the contract.

Recommendation No. 6

We recommend that USAID/Philippines arrange with the Government of the Republic of the Philippines for Kansas State University to adjust their billings for employer's liability insurance and workman's compensation to amounts actually paid as determined by the actual payroll; not the estimated payroll. If necessary, an adjustment should be made in future billings.

Recommendation No. 7

We recommend that the Office of Financial Management issue a Bill of Collection to Kansas State University in the amount of \$3,876.06 for salaries attributable to the development of the Integrated Agricultural Production and Marketing project which were incorrectly charged to the AID/a:r-707 Nigeria Contract.

Recommendation No. 8

We recommend that the Office of the General Counsel review the transactions and circumstances involved in funding the preproject development and design of the Integrated Agricultural Production and Marketing project to determine if a violation of Federal Statutes and Agency regulations exists.

BACKGROUND

At the request of USAID/Philippines (USAID/P), the Auditor General (AG) of A.I.D. initiated a limited scope audit of Kansas State University's (KSU) contribution to the Integrated Agricultural Production and Marketing project (IAPM) in the Philippines. The initial audit survey at A.I.D./Washington (AID/W) and Kansas State University indicated that the project was encountering problems that transcended KSU's involvement. As a consequence, the audit scope was expanded to include a review of the entire project. This report summarizes the results of that review (see page 3 for detailed scope of audit).

The Project

The Integrated Agricultural Production and Marketing project (IAPM) is an effort by the Government of the Republic of the Philippines (GRP) to strengthen the agricultural sector by improving government management and economic capabilities relating to agriculture. The stated purpose of IAPM is to directly support the agricultural development goals emphasized in the current GOP Five-Year Development Plan, to wit:

1. Increased agricultural output,
2. Increased investment in agriculture and rural infrastructure, and
3. A more equitable distribution of agriculture related economic benefits.

The IAPM project was designed to be A.I.D.'s centerpiece agriculture sector assistance effort in the Philippines; the loan/grant agreement between the United States Government and the Government of the Philippines obligates A.I.D. to contribute over \$9.7 million over a three-year period.* The estimated cost of the A.I.D. funded contract between KSU and the GOP alone is over \$6 million. The Philippines Government is to contribute the equivalent of \$20.25 million in cash or in-kind for the five-year period. The overall project has been structured into four sub-projects involving four GOP agencies and two Philippine universities:

1. National Economic Development Authority (NEDA)
2. Ministry of Agriculture (MOA)
 - Office of the Assistant Minister
 - Bureau of Agricultural Extension (BAEX)
 - National Food and Agricultural Council (NFAC)
3. University of the Philippines at Los Banos (UPLB)
4. Central Luzon State University (CLSU)

*Both the project agreement and the KSU/GRP contract, although only funded by A.I.D. for three years, were for a five-year period ending in June 1982. Contract funding for the remaining two years was estimated at \$2.2 million and was contingent upon availability of funds and interim project evaluations.

The four subprojects are to accomplish the following purposes:

A. Academic Subproject

The purpose of this subproject is to assist the University of the Philippines at Los Banos (UPLB) and Central Luzon State University (CLSU) to enhance their institutional capabilities to develop specialists in agriculture and food systems for service with government agencies, agricultural educational institutions, small farmers' cooperatives and agribusiness enterprises -- with specific skills in agricultural marketing, development planning and management, cooperative management, resource economics, finance and credit, international trade, regional development economics and the processing of agricultural products.

B. National Policy Subproject

The purpose of this subproject is to enhance the capability of the Department of Agriculture to determine and evaluate alternative sets of national policies affecting the production, processing, storage, distribution, and marketing of priority food crops, livestock and fisheries products.

C. Technological Package Subproject

The purpose of this subproject is to (1) develop and test technological packages to integrate crop and livestock enterprises, product processing and marketing, (2) provide training in production, post harvest technology, by-product utilization, processing, marketing and extension education, and (3) construct and operate a food processing center. The subproject will be implemented by Central Luzon State University.

D. Outreach/Extension Subproject

The purpose of this subproject is to improve existing extension-outreach programs to serve better, cooperative and marketing agencies, other agribusiness enterprises and small-farm producers. The subproject is to be carried out by the National Food and Agriculture Council.

Kansas State University is the main U.S. implementing agent for the project. As such, KSU is responsible for coordinating or providing advisory, training, and infrastructural services.

KSU, located in Manhattan, Kansas, is a U.S. land-grant university with a student and faculty population of 19,000 and 1,500, respectively, and an estimated annual budget of about \$100 million. The University has had previous A.I.D. financed contracts, including long-term contracts in India and Nigeria and an ongoing advisory contract regarding worldwide food grain storage, processing and handling.

The financial status of the U.S. contribution to the project as of December 31, 1978, was:

Integrated Agricultural Production and Marketing
Project Financial Status as of December 31, 1978

	<u>Obligations</u>	<u>Expenditures</u>	<u>Unliquidated</u>
Grant (492- 0302)	\$6,715 100%	\$1,781 26%	\$4,934 74%
Loan (492- T-044)	3,000 100%	108 3.6%	2,892 96.4%
Total	<u>\$9,715</u>	<u>\$1,889</u>	<u>\$7,826</u>

The \$3,000,000 loan is at two percent interest during the ten-year grace period and three percent interest thereafter. The payback period is 30 years.

SCOPE OF AUDIT

We have audited the Integrated Agricultural Production and Marketing project (IAPM) for the period ended December 31, 1978, including A.I.D.'s project development activities carried out prior to June 27, 1977, the effective date of the loan and grant agreements. The purpose of our audit was threefold:

1. To determine if U.S. resources were being utilized in accordance with U.S. legislation and regulations.
2. To determine if U.S. resources were being used in an economical and efficient manner.
3. To determine if the anticipated results of the project are being achieved.

This was a full scope audit as defined in prescribed standards for government audits. Our effort included site visits to the home office of the contractor, Philippine ministries and agencies of the Philippines Government, USAID/Philippines and A.I.D./Washington offices. We reviewed documentation, observed project activities and held discussions with responsible officials to the extent deemed necessary to comply with the prescribed standards.

RESULTS OF AUDIT AND AUDIT RECOMMENDATIONS

The Setting

The IAPM project is being carried out in an environment that appears very conducive to its success. For instance:

- The GRP is on record as desiring the improvement of the economic well-being of the rural population of the Republic, particularly those dependent for their livelihood upon the two million farm units classified as small farms.
- Beginning in FY 74, the GRP development strategy of the previous two decades shifted from emphasis on the industrial sector to the agricultural/rural sector.
- The Central Government has the power (critics maintain it has too much power) to marshal available development resources and direct the implementation of the above noted strategy.
- The Filipinos responsible for managing this project, whether in the GRP or academe, are almost without exception familiar with the United States, the general capabilities of our universities and colleges and the relationships of these institutions to the U.S. Government.
- The close historical relationship between the United States and the Philippines means that there are many Filipinos in general with a good understanding of U.S. culture. In fact, the Philippines may be the pre-eminent developing country regarding such understanding.
- The language barrier is minimized in that almost all educated Filipinos speak English.
- KSU was involved in the project from its inception in early 1976, and the contract was signed in August 1977. As such, the University influenced implementation planning and the selection and level of inputs. Therefore, KSU had over a year and half to identify and prepare the arrival of the 14 long-term consultants and additional short-term consultants. In October 1976, the Asia Bureau, in approving a request to contract with KSU under an exception from competitive procurement procedures, also noted that (1) KSU had established valuable contacts with GRP and Philippine University leaders, (2) KSU and the GRP, through their involvement in the planning process, had a valuable mutual understanding of the project, and (3) KSU was familiar with the project rationale, scopes of work for technical and administrative personnel and other aspects of project operations.

It is our belief that these factors optimize the opportunity for success. Yet, as indicated in the following pages, even with this positive environment the project to date has experienced serious difficulties. If these difficulties prove impossible to overcome, then much more than this one project may be affected. Indeed, the entire concept of "host country contracting" may have to be reviewed as to its suitability as a major mechanism for the expenditure of U.S. foreign assistance resources.*

Current Status of the Project

The project is progressing toward its stated objectives, however, at a decidedly slower rate than anticipated or that could be considered satisfactory. During our discussion with USAID/Philippines officials, they informed us that all of the four subprojects were behind schedule:

- Academic, 70% behind.
- Policy, 50% behind.
- Extension/Outreach, 40% behind.
- Technological Package, 20% behind.

Subsequently, in commenting on a draft of this report, USAID/P officials stated that the status of the project provided to us was a preliminary, unofficial judgement based on information known at the time of the audit. Irrespective of the precise percentages, however, USAID/P did not specifically disagree with these percentages. It is clear that actual results fall far short of planned achievements.

The project is clearly in need of improved planning and management. Deficiencies are in evidence to the extent that we question whether the present project design and implementation methods can achieve the purposes of the project in a reasonable time frame. The Agency would not be fulfilling its responsibility to utilize U.S. resources in a prudent fashion if it did not insist upon substantive improvements in project implementation and, if these improvements are not forthcoming, cancel A.I.D. financing of project activities.

In the USAID/Philippines comments on the draft report, officials reported a number of actions subsequent to completion of the audit field work which they believe will substantially improve the project's chances for successful implementation, including (1) completion of the CY 1978 annual progress report and preparation of the CY 1979 detailed work plans, (2) arrival of four long-term consultants in January 1979, (3) current committee action to refine the project's monitoring and evaluation system, (4) current action to amend the contract, and (5) an evaluation of the project by an external team conducted in early CY 1979 (the resultant report is due shortly and hopefully will specify the exact degree of subproject slippage).

*AAG/W Audit Report 79-71, "Review of the Application of Host Country Contracting Mode," discusses the suitability of host country contracts in great detail.

Because of the significant management problems and resulting project slippage, we believe that the actions reported by the Mission must be reviewed by the Asia Bureau to determine their adequacy in meeting the evident problems of the project. Accordingly:

Recommendation No. 1

We recommend that the Assistant Administrator, Asia Bureau, assure that a thorough analysis of the project is completed in a timely fashion and that necessary corrective action is taken. This analysis should review the adequacy of management actions reportedly completed after December 1, 1978, and include specific determinations as to the following:

- That the project objectives and goals are still achievable and compatible with current GRP plans.
- That delineation of project objectives and goals include detailed work plans and time phased progress benchmarks.
- That an effective progress reporting system within USAID is established to properly supervise performance and monitor project implementation.
- That the review of the contract that has taken place and any amendments resulting therefrom are sufficient to bring about an adequate understanding by and between the parties as to their respective responsibilities, duties and obligations thereunder.
- That any restructuring of the project be accomplished with a view towards having the project or portions thereof benefit the small farmer or poor majority in a more direct and prompt manner.

The Assistant Administrator should ascertain if sufficient corrective action has been taken on these points to justify continuation of the project. If it is determined, as a result of the analysis, that the project should not continue, the Assistant Administrator should take action to cancel A.I.D.'s financial commitment to the Government of the Republic of the Philippines for this project.

Contractor Performance

We believe that a prime reason for the slippage is the failure of KSU to perform adequately under the contract. As of December 1978, KSU, as the contractor, had failed to provide approximately 56 man-months of scheduled services. At that time, only eight of the scheduled 14 long-term advisory positions had been filled. This situation existed primarily because KSU refused to subcontract for advisory services from other educational institutions, although University officials knew before they signed the contract that the amount of specialized services required by the project were beyond the long-term core staff capacity of KSU. The issue was money. KSU officials insisted that the University be reimbursed for overhead on subcontractors' salaries and fringe benefits, although overhead is recoverable on a base of direct salaries and fringe benefits. A.I.D. officials have quite properly refused to allow what would amount to duplicate reimbursement to KSU for its incurred overhead costs. A second major cause of delays in filling advisory positions has been the disinterested, uncooperative backstopping of the KSU/Philippines project team by the KSU Office of International Agricultural Programs. Both of these problems merit further discussions.

Subcontracts for Advisory Services

In December 1976, eight months before the KSU/GRP contract was signed, the Head of KSU's Economics Department informed the KSU Vice-President in charge of the College of Agriculture that the Department of Economics could not fully staff the economics component of the project. The Economics Department Head believed that "...fulfillment of an implementation plan at the Department level regarding staffing, etc., ..." was an essential condition precedent to his approval of the project. At the time of our audit, five of the six vacant long-term advisory positions were for agricultural economists. Since 62 percent of the total long-term staff services and 77 percent of the total short-term services that KSU contracted to provide were in the field of agricultural economics, we believe that KSU had ample evidence prior to signing the contract that outside services would be required to fulfill contract obligations.

The general provisions of KSU's contract with the GRP provide that, subject to prior approval by the GRP and A.I.D., the University may subcontract any part of the work under the contract. KSU has attempted to develop agreements with other universities since late 1976, but at the time of our audit (over a year after signing the contract with the GRP) had not done so. It is our conclusion that KSU's inability to reach agreement with other universities was a major reason for the lag in fielding advisors.

In a June 1978 letter, the University's Vice-President for Business Affairs informed KSU's Director of International Programs that KSU would not subcontract with other universities unless the Philippine Government would agree to reimburse KSU for overhead in addition to full reimbursement for payments to the subcontractors. After numerous exchanges between KSU, AID/W, USAID/P and the GRP, the KSU Vice-President for Business Affairs, on September 7, 1978, again reiterated his position that KSU should pursue a prime contract amendment to allow KSU to apply its overhead to subcontractors' salaries and wages.

The USAID and AID/W have maintained that the billing of KSU's overhead, based on subcontractors' salaries and fringe benefits, is unacceptable and cannot be approved. We agree. We also concluded that KSU may have a misconception as to the subject of overhead costs and therefore feels it necessary to provide the following discussion:

Indirect costs are those costs that cannot readily be charged to individual activities, e.g., the costs of operating the Office of the President and the Business Affairs Office. Overhead rates are determined by (1) establishing the total amount of the University's indirect costs applicable to all Educational Service Agreements, (2) establishing the total amount of the University's salaries and fringe benefits applicable to all Educational Service Agreements, and (3) dividing the overhead amount by the salaries and fringe benefits to derive a rate. This rate is then applied to salaries and fringe benefits chargeable to the University's various individual Education Service Agreements to allocate the corresponding overhead to all of the various activities benefitting from the incurred indirect costs. It follows that the entire amount of the indirect costs will be allocated to the University's various Educational Service Agreements (of which the GRP contract is only one) on the basis of KSU's salaries and fringe benefits. We believe it is reasonable to assume that, if overhead rates calculated on a KSU base of direct salaries and fringe benefits were applied to a larger base which also included subcontractor's salaries and fringe benefits, that the University would be reimbursed for overhead costs which in fact were not incurred on the GRP contract.

Recommendation No. 2

We recommend that the Assistant Administrator, Asia Bureau, arrange with the Government of the Republic of the Philippines for Kansas State University to subcontract with other educational institutions as necessary to fulfill Kansas State University's obligation to provide advisors under the contract with the Government of the Republic of the

Philippines with the clear understanding that Kansas State University will not be paid for Kansas State University's indirect cost rate applied to subcontractors' salaries and fringe benefits.

KSU's Office of International Agricultural Programs

There is ample correspondence evidencing KSU/Philippines, GRP and A.I.D. dissatisfaction with the performance of KSU's Office of International Agricultural Programs. Complaints include (1) delays in identifying advisor candidates, (2) not following agreed procedures for clearances, (3) submitting incomplete bio-data to the GRP approving committee, (4) delays in shipment of advisors' effects, (5) misdirected shipments of advisors' effects, (6) opposition to placing participants in other universities, and (7) charging the contract for KSU employees' services when those employees were in fact occupied elsewhere. We believe that the lack of performance by the Office of International Agricultural Programs is a prime cause of KSU's continuing inability to perform under the terms of the contract. The following specific problems are identified by our audit and are confirmed by USAID/Philippines:

- During a September 1978 visit to the KSU campus, USAID officers estimated that four of five KSU Office of International Agricultural Programs personnel were providing only 50 percent of the services billed under the contract. If in fact there is a 50 percent shortfall, overbillings would be about \$3,700 per month. KSU did acknowledge that one individual, billed at \$3,100 per month, was only spending about half the billed time on the project. While it is impossible, barring a time-motion study, to state that there is indeed this 50 percent shortfall, the fact that KSU has acknowledged that at least one individual billed at \$3,100 per month was spending only half the billed time on the project lends substantial credence to the USAID estimates.
- In an October 1978 letter to KSU's Vice-President for Agriculture, the GRP's Overall Coordinator for the project noted that the GRP had been forced to directly apply to other universities for placement of project participants because of "the failure of... [KSU's]...Campus Coordinator and the Office of International Agricultural Programs to assist us in obtaining admission for our participants in universities of our choice." The Coordinator noted that KSU's apparent lack of attention to the GRP and USAID interest in placing students in other universities indicated that KSU still did not clearly understand the GRP's rationale and position on student placement.
- A February 1978 letter from the KSU Team Leader (the contract was then six months old) to the Director, Office of International Agricultural Programs, noted that:

- (1) Lack of reference letters, bio-data and curriculum vitae had delayed consideration of four advisor candidates proposed by KSU.
- (2) The positions weren't specified. Many field positions had the same title, but were at different locations and involved in different subprojects. It was not clear who was being nominated for what position.
- (3) A.I.D. and the GRP have the distinct impression that the Home Office is unwilling to provide documentation normally provided and expected in nominations of faculty and that the Office of International Agricultural Programs refused to accept the concept of a true participatory role by A.I.D. and the GRP in review and approval of KSU nominations.
- (4) There is great antagonism and suspicion in the minds of KSU's counterparts, and A.I.D. and the GRP are again in an adversary stance vis-a-vis KSU because of the manner in which nominations were presented.
- (5) Action had to be taken by the Home Office to expedite requests for vehicles, appliances and equipment and to follow up on those requests and shipments.

-- During the period February-November 1978, the Office of International Agricultural Programs:

- (1) sent correspondence referring to enclosures which were not in fact enclosed,
- (2) submitted incomplete bio-data on nominees,
- (3) delayed response to the nomination of a Ph.D. participant for three months due to "internal politics,"
- (4) included typewriters, water heaters and air conditioners in a shipment of personal effects, resulting in delays in obtaining customs clearances and tax exemption certificates, and
- (5) consigned shipments of equipment, automobiles and personal effects to the wrong brokerage firms, causing numerous delays in customs clearances.

As a result of these and many other documented shortfalls in performance by the KSU Office of International Agricultural Programs, the USAID/Philippines Project Officer concluded in August 1978 that a separate project office should be established to administer the project. He suggested that this office should develop its own management team and operate directly under the aegis of the Office

of the President of KSU and have no responsibilities other than the IAPM project. The Project Officer noted that a number of senior professors and administrators at KSU were dedicated to the success of the project. What was needed was a new campus management team. Our audit substantiated the problems and leads us to believe the proposal by the USAID Project Officer is reasonable. The Office of International Agricultural Programs has become a major roadblock to the success of this project.

Recommendation No. 3

We recommend that USAID/Philippines arrange (through the Government of the Republic of the Philippines) for the Kansas State University's Home Office support required to implement the project. A separate Integrated Agricultural Production and Marketing project office, under the aegis of the President of the University, should be considered as one of the alternative means to administer the project. Performance of the present Home Office staff responsible for project administration and support should be reviewed on an individual basis by the Government of the Republic of the Philippines and USAID/Philippines to determine if Kansas State University should be requested to replace any of the incumbents.

KSU Billing Practices

As noted on page 9, KSU acknowledged that one individual billed to the contract was only spending about one-half the billed time on the project. In addition, KSU has billed for participant training at a flat monthly charge for each participant, although the contract provides for reimbursement of actual costs. USAID/Philippines officials estimated that the monthly rate billings would exceed KSU's costs by about \$498,000 over the five-year life of the contract.

In an internal memorandum dated April 24, 1978, USAID/Philippines officials expressed concern over the amounts KSU was billing for participant training costs. KSU billed at rates of \$1,000 per month for Master degree candidates and \$1,250 per month for Ph.D. candidates. The USAID estimated actual annual costs per candidate at \$8,947 as follows:

KANSAS STATE UNIVERSITY
USAID ESTIMATE OF TRAINING COSTS

1) School fees \$840 per semester	\$1,680
2) Summer term \$30 plus \$40 per credit hour @ 10 hours	430
3) Per diem, standard AID rates - 1 month @ \$35/day 11 months @ \$377/day	5,197
4) Miscellaneous Academic Expense	
a) Book allowance \$20/mo. - 12 months	480
b) M.S. Thesis	200
c) Typing Costs	125
d) Shipment of materials	60
e) Membership to Professional Society	75
f) Other	<u>200</u>
	\$8,447
5) Trips related to studies-if approved (assuming \$500)	<u>500</u>
Estimated Total Costs	<u><u>\$8,947</u></u>

With 72 participants scheduled for one-year Masters programs and 23 participants scheduled for two-year Ph.D. programs, the estimated billing, cost and overbilling would be:

	<u>Masters</u>	<u>Ph.D.</u>
Projected billings (5 year life-of-contract)		
Masters \$1,000 x 12 months x 72 candidates	\$864,000	
Ph.D. \$1,250 x 24 months x 23 candidates		\$690,000
Estimated Actual Cost		
Masters \$8,947 x 72 x 1 year	644,184	
Ph.D. \$8,947 x 23 x 2 years		<u>411,562</u>
Estimated Overbilling	<u>\$219,816</u>	<u>\$278,438</u>

The GRP Overall Project Coordinator was also concerned with KSU's billings for participant training. His memorandum transmitting his certification of KSU's performance on KSU's December 1977 invoice contained the following:*

"Participant training charges for both Ph.D. and M.S. slots should be reflected on actual cost basis up to the planned limits rather than on standard \$1,250 and \$1,000 a month, respectively, for both. Furthermore, all such expenses incurred should be supported by the necessary receipts and invoice per participants."

*The GRP was required to certify KSU's invoices to the effect that services were properly delivered and costs were properly reimbursable.

Similar statements were included in transmittal letters for at least five months thereafter, with no compliance by KSU. Finally, in a summary record of discussions with the Overall Coordinator during his visit to the KSU campus in November 1978, KSU stated that, on the advice of their attorney, they concluded that the contract called for cost reimbursement and that arrangements were being made for the appropriate reporting system. At the time of our visit to the KSU campus, cost data on IAPM participants was not yet available to us and, accordingly, we could not analyze participant costs incurred vs. costs billed or determine the validity of the estimates by USAID/Philippines.* Nevertheless, we share the concern over these cost questions and therefore make the following recommendation.

Recommendation No. 4

We recommend that USAID/Philippines arrange with the Government of the Republic of the Philippines for a review of Kansas State University charges for the participant training program and to determine if the charges are appropriate in accordance with the contract. The review should include a Kansas State University statement of costs certified by an independent public accountant.

Other apparent billing discrepancies which should be resolved are:

Telephone charges: All telephone charges for the KSU Office of International Programs were being charged to the IAPM project, although that office had responsibility for activities other than the GRP contract. Also there were unexplained duplicating and printing charges to the IAPM project.

Recommendation No. 5

We recommend that USAID/Philippines arrange for the Government of the Republic of the Philippines to have Kansas State University explain or justify the telephone and reproduction charges to the Integrated Agricultural Production and Marketing contract to ensure that these expenses are eligible for reimbursement under the contract.

Workman's compensation and employer's liability insurance: Another item of questionable eligibility for reimbursement under the terms of the contract is the amount charged for workman's compensation and employer's liability insurance. The amount billed, \$35,399, was based on the estimated KSU annual payroll for the IAPM project. The charge was included in KSU invoice 5543-5 dated March 22, 1978. We believe this amount should be adjusted to the actual payroll.

*It is not an audit function to reconstruct records.

Recommendation No. 6

We recommend that USAID/Philippines arrange with the Government of the Republic of the Philippines for Kansas State University to adjust their billings for employer's liability insurance and workman's compensation to amounts actually paid as determined by the actual payroll; not the estimated payroll. If necessary, an adjustment should be made in future billings.

Project development charges: KSU charged \$3,876.06 to a KSU-USAID/Nigeria contract for salaries attributable to IAPM project development. This charge was not provided for in the Nigeria contract and is not allowable for the present contract. The salaries were attributable to 1) Dr. Vern Larson, Director, Office of International Agricultural Programs, for the periods March 26 thru April 15, 1976 (\$2,575.36) and December 8 thru December 23, 1976 (\$818.43); and 2) Mr. Dodge, Accountant, Office of International Agricultural Programs, for the period December 8 thru December 22, 1976 (\$482.27). These salaries were charged to Contract No. AID/afr-707, Kansas State University, Title: To Render Technical Advice and Assistance to Cooperating Governments by Assisting in the Department of Facilities for Veterinary Medicine, AHMADU BELLO University, Zaria, Nigeria. KSU was informed that a Bill of Collection would be issued for the \$3,876.06.

Recommendation No. 7

We recommend that the Office of Financial Management issue a Bill of Collection to Kansas State University in the amount of \$3,876.06 for salaries attributable to the development of the Integrated Agricultural Production and Marketing project which were incorrectly charged to the AID/afr-707 Nigeria Contract.

The Project Development and Approval Process

Program management problems, misunderstanding, and serious shortfalls in project progress can be traced, in part, to the project development and approval process. In December 1975, KSU technicians who were in the Philippines on other business were contacted by the USAID and others about possible interest in the project. A preliminary working paper for the project was also produced by USAID/Philippines in December 1975. This working paper proposed that KSU be engaged to plan, initiate, and carry out the project under Title XII of the International Development and Food Assistance Act of 1975. The working paper also described the four "Thrusts" or subprojects in terms of purpose, GRP action agents, end of project conditions, types of inputs, and concepts of operations.

The project was informally approved by the AID Administrator and Deputy Administrator early in January of 1976. Although USAID officials now contend that this approval was in the form of agreement in principal to the concept of a major Title XII type project, it seems clear to us that USAID officials believed that they had high level approval of both the project and KSU as the major contractor.

On February 17, 1976, the USAID Director presented the project to a number of Philippine agencies, including the National Economic Development Authority (NEDA), the Ministry of Agriculture (MOA), University of the Philippines at Los Banos (UPLB) and Central Luzon State University (CLSU). The Director General of NEDA chaired the meeting and noted that the purpose of the meeting was to decide whether joint GRP/USAID planning should proceed. The USAID Director stated that AID/W had reviewed the project concept and a favorable reaction had been obtained. The NEDA Chairman noted that further exploration of the project had been approved by the President of the Philippines.

It was decided at that meeting that a joint Philippines-USAID workgroup would develop the project. The USAID Director informed the GRP officials that the U.S. contribution (combined grant and loan) might be in the \$7-15 million range. Although KSU was not mentioned in the USAID record of the meeting, it was noted that the concept paper, which provided for KSU participation, had been previously provided to the participants.

In a meeting held in Washington on April 26, 1976, the USAID/Philippines' Program Officer attempted to persuade Asia Bureau officials that because of the prior approval by the Administrator and Deputy Administrator, certain review documentation or procedures were not necessary.

Minutes of that meeting state:

"Mulcahy (USAID Program Officer) again stated that neither PID (Project Implementation Document) nor PRP (Project Review Paper) would be submitted, stating that he was 'under instructions from Murphy (the Deputy Administrator) to get it in before the end of FY 76.' He stressed that the project had already been approved by both Parker (the Administrator) and Murphy (the Deputy Administrator). Don Cohen (ASIA/DP) suggested that, if this were the case, all Mulcahy (USAID Program Officer) had to do was obtain their approval on the document they had reviewed, the Bureau would be satisfied. The idea was not accepted." (Source: Memorandum for the Files, May 7, 1976.)

Further in the meeting, the USAID Program Officer stated:

"...the urgency of the project was such that no time could be lost in excessive reviews." (Source: Memorandum for the Files, May 7, 1976.)

The major negative result stemming from the evident USAID/P desire to "expedite" the approval process and limit the selection of U.S. contractor to KSU was the failure of the Agency to assess carefully the capacity of KSU to handle the complex nature of the contract with the GRP. This conclusion is substantiated by serious questions regarding the waiver of competition regarding the selection of the contractor.

Questionable Competitive Procurement Waiver

The Asia Bureau's Office of Project Development (ASIA/DP) waived the prescribed competitive process regarding the selection of KSU as contractor. The KSU contract was awarded without competition. The waiver was based on a premise that KSU possessed unique qualifications or a predominant capability derived principally from prior services in the development and design of the project. We believe that KSU did not, in fact, possess these unique qualifications.

The ASIA/PD staff recommendation to the Director for approval of the waiver stated:

"Recommendation: Handbook 11, paragraph 1B2K(1) provides that a borrower may select a contractor without following the selection procedures '...when the firm has performed prior services--with respect to the same project.'

Since Kansas State University has provided prior services as outlined above, per Handbook 11, an exemption from competitive contracting procedures is justified.

We recommend that you approve the GRP's request to contract with KSU without following normal A.I.D. competitive procurement procedures and that you sign the attached cable so advising the Mission."

However, the one unique asset that KSU did possess, their preproject knowledge derived from participation in the project development and design, was negated because the contract does not hold the contractor responsible for achievement of project objectives or goals beyond providing consultative or advisory services and the training of participants. Thus, in effect, the contractor becomes a broker or coordinator for advisory or training services, a function that other U.S. universities or private firms could have performed.

The absence of a predominant capability is further evidenced by KSU's Department of Economics incapacity or lack of interest to fully staff the project positions with respect to the economics component (page 7). The requirements of the contract are such that we believe other major universities possessed the resources or capabilities to satisfy the implementation requirements stipulated in the contract. Moreover, in their response to our draft report, ASIA/DP stated that several private firms or the U.S. Department of Agriculture could also have provided the required services.

Failure to Treat Projects as Discrete Endeavors

By definition, a development project is a total discrete endeavor to create, through the provisions of personnel, equipment and/or capital funds, a finite result directly related to a discrete development problem.* We believe that this project does not fit that definition because activities planned for the IAPM project were initiated and charged to a prior project at a time when the IAPM project had not yet been funded. Furthermore, after the IAPM project agreement was signed and funds were available, IAPM funds were then used to initiate and finance activities under the Cooperative Marketing project at a time when the latter was still in the preapproval stage.

USAID/Philippines incurred expenses of \$225,000 for IAPM project activities prior to the project authorization on February 8, 1977. Because the IAPM project was not funded prior to February 8, 1977, expenses incurred between March 1976 and February 1977 could not be charged to the proposed project. Therefore, \$225,000 was expended from another A.I.D.-funded project--Small Farmer Income and Production (SFIP). We were informed by an A.I.D. official, who was the USAID Deputy Program Officer at the time, that the SFIP project would have terminated, but was extended beyond its original termination date solely to fund IAPM preproject activities. The \$225,000 was subsequently deallotted from the Small Farmer Income Project and reallocated to the IAPM project.

In commenting on a draft of this report, the USAID stated that it should be noted that the Mission and the GRP planned from the onset to fold relevant Small Farmer Income and Production project on-going activities into the IAPM project as the rationale for reallocating from SFIP to the IAPM project. The Mission argues that the SFIP had objectives and some activities similar to the IAPM project. It also argues that it and GRP personnel saw the IAPM as an expansion and refinement of the SFIP project. We are unconvinced by these arguments.

Another example of the lack of program discipline is the IAPM funding of 35 short-term participants from the Cooperative Marketing project. The stated rationale for this action was that the training of the 35 marketing cooperative managers would be of direct benefit to the IAPM project. Since the IAPM project was funded and the Cooperative Marketing project only had an approved PRP, an advantage would be gained if the IAPM project would fund the early training of participants. (The Cooperative Marketing project is a \$6 million USAID project funded in FY 1978.) Again this is a case where one approved project was charged for activities that are an integral part of an unfunded proposed project.

We believe it is clear from Handbook 3 that a discrete endeavor means specific inputs linked to specific end-of-project status. We do not believe the practice of using funds from one project to underwrite

*A.I.D. Handbook 3, "Project Assistance," Part I, Page 1-1.

the costs of a yet-to-be-approved project conforms to the discrete criteria. Nor does it represent prudent management. USAID/P should discontinue the practice of funding new, not-yet-authorized project activities from existing projects.

Acceptance of Unreimbursed Services From KSU

The methods and procedures employed by USAID/Philippines to acquire and fund the services of KSU in the IAPM preproject development and design are sufficiently irregular to raise the possibility of a violation of Federal Statutes and Agency regulations. Although no project agreement existed, KSU was asked to and did provide technical assistance in the preproject development and design stages. KSU received no compensation for applicable faculty salaries of \$25,283.

The USAID Director, recognizing the need for extensive expert technical assistance in preproject planning, requested KSU's assistance in the development and design of the IAPM project. KSU accepted with the understanding that the USAID would pay only the international travel and per diem expenses and KSU would absorb the advisors' salaries for work performed on the USAID project. There was no written agreement consummating this understanding between the USAID or the GRP with KSU, nor was a project agreement developed to fund this twelve-man, quasi-official, technical assistance effort. KSU records indicate the University absorbed salary costs amounting to \$25,283 attributable to IAPM preproject work. These services were in effect donated to or performed as a voluntary service to the United States Government. To date, KSU has not sought reimbursement for these services.

KSU officials told us that their reason for doing this was twofold: 1) altruistic - helping A.I.D. in its work overseas and 2) the possibility that they would get the contract, especially if they did the project development work. KSU officials informed us that they received no absolute assurances that they would receive the contract.

We believe the foregoing facts raise the possibility of a violation of the A.I.D. regulations issued pursuant to the Anti Deficiency Act, 31 U.S.C. 665 and OMB Circular No. A-34 which appear in Chapter 4 of A.I.D. Handbook 19. Subsection 4B2 of this chapter describes the pertinent statutory and regulatory requirements:

"4B. Statutory and Regulatory Requirements

'1. This chapter is issued pursuant to Section 3679, Revised Statutes, as amended (31 USC 665) and Office of Management and Budget (OMB), circular No. A-34 and applied to the control of all funds made available to the Administrator, AID.

'2. Section 3679 of the Revised Statutes, as amended, provides in subsection (i) that there shall be furnished

to the President, through the Director of the OMB, and to the Congress, information on violations of the following character:

'a....

'b....

'c. Any case where an officer or employee of the United States has accepted voluntary service for the United States or employed personal services, in excess of that authorized by law, except in cases of emergency involving the safety of human life or the protection of property."

The funding procedures employed by the USAID/Philippines are essentially of the kind described in subsection 4B2c of A.I.D. Handbook 19. Consequently, we are requesting an opinion of the General Counsel to determine if there is a violation of the notification procedure to the President, the Office of Management and Budget and the Congress, as required by Federal Statutes and Agency regulations.

Recommendation No. 8

We recommend that the Office of the General Counsel review the transactions and circumstances involved in funding the preproject development and design of the Integrated Agricultural Production and Marketing project to determine if a violation of Federal Statutes and Agency regulations exist.

GRP Performance

The IAPM project is the GRP's first experience with a major host country technical assistance contract. Given this fact, GRP performance must be characterized as generally satisfactory. Office space, participants and the required local currency have been provided. Nevertheless, the GRP has contributed to some misunderstandings with respect to participant training.

KSU/Philippines was concerned that they did not have the degree of control necessary to satisfy their contractual responsibilities regarding the prescreening of participant candidates as stipulated in the contract. Related memoranda of understanding clearly provide for KSU participation in the screening, processing and approval of applicants.

KSU/Philippines informed us that the participant candidates were selected, evaluated and approved by the GRP without KSU having an opportunity to participate in the process. Another point of concern was the non-degree training component of the project. KSU was required by the GRP to send two groups of GRP officials on short-term training trips to Taiwan and

Southeast Asia, although KSU had reservations about both the qualifications of the participants and the benefits to be derived. When KSU questioned the need for the second trip, the GRP Overall Coordinator insisted that the trip be carried out. His written justification for this training was not received by KSU until after the participants departed.

KSU has, at GRP direction, paid for the last portion of doctoral training for four Ph.D. candidates attending other universities. The training of all four was initiated under other GRP programs. KSU paid these educational expenses with no clear understanding of what positions these candidates would fill upon completion of this training or how their training would benefit this project. When we asked the GRP Overall Coordinator about this situation, he replied he had not provided the needed data and the KSU campus should have asked for it. The GRP Overall Coordinator also stated that this funding of the above mentioned doctoral candidates under the contract resulted in maximum utilization of available resources, i.e., obtaining graduates with doctorate degrees for the project for the price of short-term training. The contract is silent on the acceptance of graduate students already enrolled in other programs.

Agency Oversight and Control

The USAID and AID/W have not exercised sufficient control over project planning and implementation. USAID/Philippines has been remiss in not enforcing its monitoring prerogatives under the various agreements to require KSU to take corrective action on the ongoing known deficiencies. The USAID's comprehensive knowledge of the problems was obvious during our visit and is further substantiated by the numerous memoranda in the project files. However, this knowledge needs to be translated into positive action on a timely basis.

Also, we believe that reporting was deficient. USAID officials were unable to provide a report (other than the one specifically prepared at our request) that clearly described how the integrated or parent project was proceeding toward its planned goals. Numerous reports or documents describing project activities, i.e., personnel movements, conferences, seminars, etc., were available; however, they could not be considered progress reports. A complex project such as the IAPM needs an effective reporting system to enable management and monitoring officials to properly supervise individual performances and monitor overall project implementation.

The need for an efficient and effective progress reporting system was highlighted in a memorandum from the Area Auditor General to the USAID Director, dated October 4, 1978. This memorandum identified the reporting deficiency and suggested that a regularized reporting system be developed along with detailed workplans for the consultants and the project officers. This was not done.

Logistical Support

A noticeable contributing factor in poor contractor performance has been the inordinate amount of time absorbed resolving problems relating to logistical support. Although we were unable to determine precisely the degree of time diverted from other project activities because of logistical problems, the USAID Project Officer told us that the excessive time spent by the KSU Team Leader in solving these logistical problems has "severely limited his ability to provide the intellectual leadership that the project demands."

The USAID has virtually no responsibility for providing logistical support. Dollar funds of \$176,000 were budgeted for the purchase of vehicles, appliances, and office equipment to support the field team. (Examples of the KSU Office of International Agricultural Programs problems in procurement and shipping of these items are noted on pages 9 and 10.) USAID/Philippines only significant responsibility is to provide available excess property in lieu of purchases from contract dollar funds. At the time of our review, contract funds had been used to provide air conditioners, gas ranges, water heaters, clothes washers/dryers, freezers, and 8 of 12 vehicles. In addition, excess property having an original acquisition cost of \$52,436 had been provided to KSU including four vehicles (\$13,780), household furnishing and appliances (\$34,257), office equipment (\$1,509) and miscellaneous (\$2,890). The property was transferred in accordance with Agency guidelines. Considerable time, however, has been consumed in this endeavor by the USAID agricultural staff and KSU personnel. Two examples of the frustrations and aggravations encountered are:

- USAID officials arranged for the acquisition of 14 sets of USAID household furniture, over three truck loads, for KSU. The furniture then had to be stored until KSU was ready to accept it nine months later.
- KSU requested the procurement of new dictating equipment; the GRP approved the purchase; someone at USAID discouraged the purchase because of servicing problems and the general feeling that it was extravagant and inappropriate due to the availability of competent local secretaries. USAID then provided excess property dictating equipment of which some units were new, but others proved to be unserviceable.

While the effort has proved fruitful in the quantity of excess USAID inventories utilized, no funds have been "saved," in that there was no offset in the contract equipment budget for the \$52,436 worth of excess property provided by the USAID. The entire \$176,000 is still available for expenditure under the terms of the contract. The benefits to the project in terms of efficiency and economy have, in our opinion, been at best non-productive. The USAID, in commenting for the draft report, however, believed that excess property procurement had not required an unusual amount of USAID time, and the effort was well worth it.

Final Comment

It is apparent to us that the Agency has invested a great deal of its prestige and credibility in the IAPM project. It has a stake in the final outcome of the project that clearly transcends the U.S. monetary contribution. Our audit, as summarized in this report, identified serious deficiencies that, left unresolved, will pose a serious threat to the successful completion of the project. Hopefully, we have indicated steps that can be taken to strengthen the project implementation effort and thus increase the chances for eventual success.

INTEGRATED AGRICULTURAL PRODUCTION AND MARKETING PROJECT
USAID/PHILIPPINES

REPORT RECIPIENTS

Deputy Administrator	1
Assistant Administrator Bureau for Asia (AA/ASIA)	5
General Counsel (GC)	1
Office of Financial Management (FM)	1
Director, USAID/Philippines	5
Office of Development Planning (ASIA/DP)	1
Office of Philippines and Thailand Affairs (ASIA/PT)	1
Office of Project Development (ASIA/PD)	1
Office of Technical Resources (ASIA/TR)	1
Auditor General (AG)	1
AG/EMS (C&R)	12