

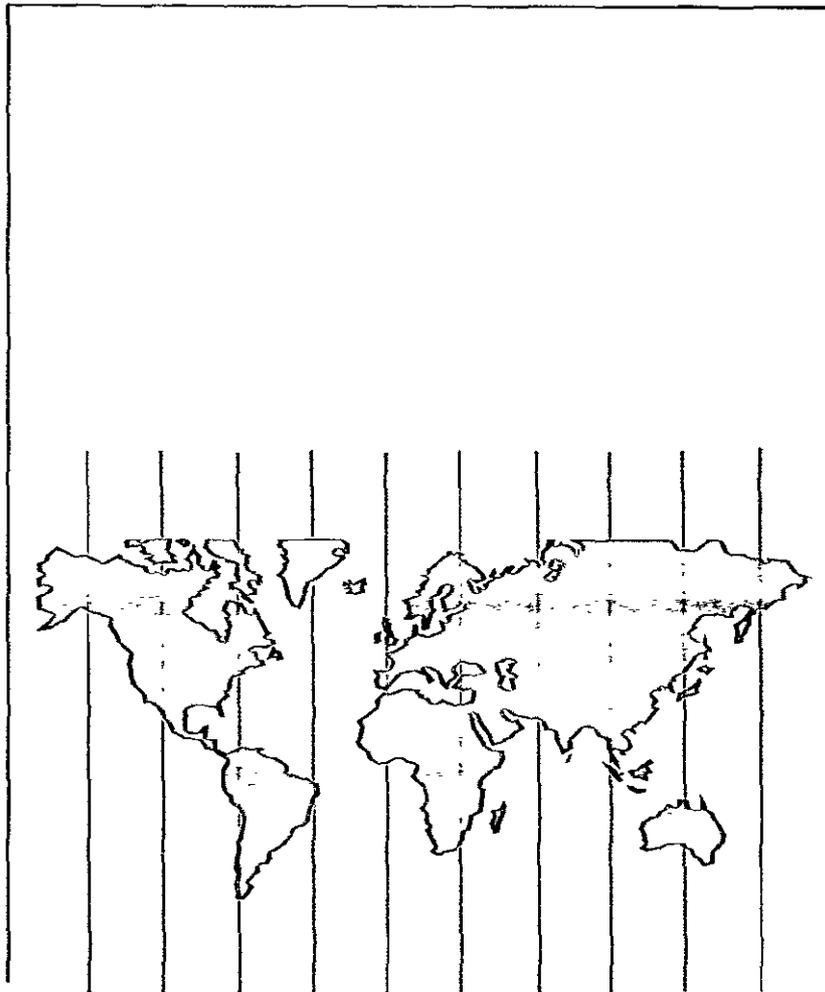
PD-AAI-956

525 0191001801

1527 15 1

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
LATIN AMERICA
(Washington, D.C.)

REVIEW OF WATERSHED MANAGEMENT

PROJECT NO. 525-0191

LOAN NO. 525-T-049

USAID/PANAMA

AUDIT REPORT NO. 1-525-82-7

MARCH 3, 1982

The Watershed Management project is being funded with a \$10 million AID loan and a \$6.8 million counterpart contribution from the Panamanian Government. The broad project goal is to obtain a rational, productive, economic, and equitable use of Panama's renewable natural resources by (1) developing the institutional capability of the implementing agency -- RENARE; (2) developing an educational and information dissemination program; and (3) implementing watershed management programs in three watershed areas.

Although there was significant progress towards achieving project objectives, serious administrative and financial problems existed at RENARE. Without improvements, these problems represent a threat to the achievement of project objectives. In our opinion, technical assistance to strengthen administrative and financial management capabilities must be obtained.

WATERSHED MANAGEMENT
Project No. 525-0191
Loan No. 525-T-049

TABLE OF CONTENTS

	<u>Page No.</u>
EXECUTIVE SUMMARY	i
Introduction	i
Scope	i
Conclusions	ii
Recommendations	ii
BACKGROUND AND SCOPE	1
Background	1
Scope of Audit	2
AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	3
An Overall Assessment of Project Goals and Accomplishments	3
Technical Assistance	6
Controls over Personnel and Payroll	8
Voucher Claims and Reimbursement	9
RENARE Project Accounting	13
Quarterly Disbursement Reports	13
Inventory Controls	14
EXHIBIT A - Description of Project Activities	15
EXHIBIT B - Overall Financial Plan	17
EXHIBIT C - Funding Status of AID Loan No.525-T-049	18
APPENDIX A - List of Recommendations	19
APPENDIX B - List of Recipients	21

Watershed Management
Project No. 525-0191
Loan No. 525-T-049

USAID/Panama

EXECUTIVE SUMMARY

Introduction

On March 29, 1979, AID signed an agreement to provide the Government of Panama (GOP) with a \$10 million loan for the Watershed Management Project. The GOP was to provide \$6.8 million as a counterpart contribution. The major objectives of the project were: (1) to strengthen the technical, managerial and administrative capabilities of the implementing agency -- The Directorate of Renewable Natural Resources (RENARE); (2) to increase awareness of the importance of natural resource conservation; and (3) to establish watershed management programs in the Canal watershed and two other priority watersheds -- Rio La Villa and Rio Caldera.

To achieve the purposes stated above, the project has three components: (1) Institution-building - RENARE required a new, program-oriented organizational structure with strengthened management and additional professional and sub-professional personnel. Technical assistance totalling 141 person/months, staff training as well as additional physical facilities, vehicles and equipment were required elements for achieving an increased institutional capability.

(2) Conservation Education - RENARE was to develop educational and information dissemination activities aimed at the target populations within the project watersheds. A small-scale research program was also planned which would consist of simple applied research activities in the areas of erosion, water quality and tropical hardwoods technology.

(3) Watershed Management - Activities in the three watersheds had dual objectives. The Canal watershed would provide RENARE with significant implementation experience in designing and managing watershed projects. The projects in the other two watersheds would contribute to the enhancement of RENARE's land use management planning and project design capabilities. Watershed management activities include the development of a Land Use Management Strategy, Reserve and Park Management, Reforestation, Soil Conservation and Pasture Improvement.

Scope of Audit

This is our first audit of the project. The purpose was to evaluate the effectiveness, efficiency, and economy of implementation of the Watershed Management Project. The audit covered project activities and expenditures from its beginning in March 1979 through September 1981.

Conclusions

As of September 30, 1981, \$3.6 million in loan funds had been disbursed. It is our opinion that the implementation of this project has made significant progress towards achieving its objectives. RENARE had reorganized and watershed management activities were progressing. However, we believe that the depth of the administrative and financial problems found represent a threat to the satisfactory achievement of one of the primary purposes -- to strengthen the technical, managerial, and administrative capabilities of RENARE. The lack of technical assistance in the area of financial management and administration had become the major limiting factor for the project. The project had virtually come to a standstill because the \$950,000 revolving fund advance provided by the Mission was depleted. As of October 30, 1981, there was a \$309,685 deficit in this account, and RENARE was not able to meet one of its payrolls in November.

Without proper financial management and administration at RENARE, other project objectives may not be achieved. The administrative and financial management of this project at RENARE cannot continue in such disarray. We believe that RENARE urgently needs technical assistance to strengthen its administrative and managerial capabilities.

Recommendations

This report contains 10 recommendations which are included in the body and in Appendix A. The findings and recommendation in this report were discussed with USAID/Panama officials and a draft report was submitted to the Mission for review and comment. These comments were considered in preparing the final version of this report.

BACKGROUND AND SCOPE

Background

A major focus of Panama's recent development efforts has been to raise the standard of living of the rural poor by extending health and educational services into rural areas and by attempting to integrate the campesino into the national market economy. Until recently, however, little attention had been paid to the importance within the context of Panama's long-term development effort of the preservation and development of Panama's renewable natural resource base -- soil, water, forests and wildlife. In effect, the Directorate of Renewable Natural Resources (RENARE) of the Ministry of Agricultural Development (MIDA) had received relatively little support in its efforts to develop and implement programs.

The Ministry of Planning and Political Economy prepared a policy statement on watershed management which lists as its objectives:

- 1) to increase the capacity of the GOP to plan and implement projects related to the management conservation and optimum use of renewable natural resources;
- 2) to develop management programs in priority watersheds;
- 3) to strengthen the institution responsible for renewable natural resources (RENARE);
- 4) to reduce rates of erosion by means of adequate soil management and conservation systems;
- 5) to control and reduce sediment in rivers and lakes; and,
- 6) to control and reduce contamination of the rivers and lakes.

On March 29, 1979, AID signed an agreement to provide the Government of Panama (GOP) with a \$10 million loan for the Watershed Management project. The major project purposes adhere closely to the GOP's watershed management objectives. They are:

- 1) to strengthen the technical, managerial, and administrative capabilities of RENARE;
- 2) to increase awareness of the importance of natural resource conservation; and,
- 3) to establish watershed management programs in the Canal and two other priority watersheds.

The strategy to achieve the project purposes has three elements. These are institution-building, conservation education, and the design and implementation of watershed management programs in selected priority watersheds -- the Canal Watershed, the Rio La Villa Watershed, and the Rio Caldera Watershed. Details of the project are shown in Exhibit A.

The \$10 million AID loan was to be supplemented by a \$6.8 million counterpart contribution from the GOP. The overall financial plan is shown on Exhibit B. A brief synopsis follows:

<u>Component</u>	<u>AID</u>	<u>GOP</u>	<u>Total</u>
INSTITUTIONAL DEVELOPMENT	\$2,465	\$1,000	\$3,465
EDUCATION & RESEARCH	535	300	835
WATESHED MANAGEMENT PROGRAMS	<u>7,000</u>	<u>5,500</u>	<u>12,500</u>
PROJECT TOTAL	<u>\$10,000</u> =====	<u>\$6,800</u> =====	<u>\$16,800</u> =====

Scope of Audit

This is our first audit of the project. The purpose of the audit was to evaluate the effectiveness, efficiency and economy of implementation of the Watershed Management Project.

The audit covered project activities and expenditures from its beginning, March 29, 1979, through September 30, 1981. The review was made in accordance with generally accepted auditing standards and compared project accomplishments against stated goals in the project paper and implementation letters. We reviewed project files maintained by RENARE and USAID/Panama and discussed project progress and problems with officials at these institutions. We visited several sites where project activities were taking place to inspect equipment, facilities, and reforestation activities.

The results of our audit were discussed with USAID/Panama officials at an exit conference and a draft of this report was submitted for review and comment. Mission comments were considered in the finalization of this report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

An Overall Assessment of Project Goals and Accomplishments

The project loan agreement was signed on March 29, 1979. All services and goods financed under the loan were to be completed or delivered by the project assistance completion date, September 30, 1983.

The broad goal of the project was to obtain a rational, productive, economic, and equitable use of Panama's renewable natural resources. To this end, the major purposes of the project were to: (a) strengthen the technical, managerial, and administrative capabilities of RENARE; (b) increase awareness of the importance of natural resource conservation; and (c) establish watershed management programs in three watersheds -- the Canal area, upper La Villa, and Rio Caldera.

The Watershed Management Project was evaluated during July and August 1981 by a joint team from ROCAP, USAID/Panama, and RENARE. The evaluation report contained a series of technical and administrative recommendations which were being analyzed by USAID/Panama and RENARE for possible implementation.

The report stated that project implementation had been slow. As of June 30, 1981, 50 percent of the total time had elapsed and only 26 percent (\$2.6 million) of project funds had been disbursed. Delayed project implementation was most notable for the following components: technical assistance; construction/remodeling; the procurement of heavy equipment and materials; and selected watershed management activities (soil conservation, pasture improvement, and reforestation).

The report pointed out that substantial progress had been made in the last several months. For example, an overall reorganization and strengthening of RENARE had taken place, including an increase in national personnel recruitment and training activities. The evaluation report cites problems which can basically be divided into two categories -- technical and administrative.

Technical concerns centered around the implementation and feasibility of some project activities. The report stated that: 1) an analysis needed to be made of the economic feasibility of current reforestation activities; 2) improvements were needed in the Management Plan and the strategy for the La Villa Watershed; 3) research and evaluation activities needed to be initiated; and, 4) more effective controls of protected areas (reserves and national parks) needed to be exercised.

Administrative concerns were discussed in sections of the report dealing with organizational and financial management. The major reasons for project implementation delays were discussed in these sections. The report concluded that because RENARE operated under the program and administrative policies of MIDA, its institutional development had been inhibited. RENARE would be better able to function as a semi-autonomous institution with its own regulations and operating policies.

Financial management concerns dealt with: 1) the need to improve the RENARE accounting system; 2) the lack of internal controls; 3) the absence of property accountability; and 4) the lack of operational and procedural manuals to assure the proper control and reporting of RENARE resources. The report also stated that because of poor financial management, the Watershed Management program had come to a complete halt. The \$950,000 revolving fund advance was depleted and RENARE was stranded without operating funds. The condition of the revolving fund had not improved when we conducted our audit.

The Mission had developed a timetable and assigned tasks to appropriate personnel in order to respond to the joint evaluation report.

Our audit basically corroborated the findings of the evaluation team. Details of our analysis are stated in the remaining sections of this report.

As of September 30, 1981, project disbursements amounted to \$3,603,762 (of which \$950,000 was an advance to RENARE), leaving \$6,396,238 or 64 percent to be disbursed in the final two years of the project.

Exhibit C shows the summary information related to the status of the \$10 million AID loan as of September 30, 1981. A brief synopsis follows:

	U.S. \$ '000		
	Budgeted	Disbursed	Balance
Advance to RENARE	\$ -0-	\$950	(\$950)
Institutional Development	2,465	598	1,867
Education & Research	535	4	531
Watershed Management	<u>7,000</u>	<u>2,052</u>	<u>4,948</u>
Total	<u>\$10,000</u>	<u>\$3,604</u>	<u>\$6,396</u>

Of the three project components -- Institutional Development, Education & Research, and Watershed Management -- Education and Research had the least amount of disbursements; less than one percent of the budgeted funds were disbursed for this component. Most project activity had taken place in the Institutional Development and Watershed Management components. About 24 percent of the budgeted funds had been disbursed for Institutional Development. The largest portion of budgeted funds disbursed was in the Watershed Management component (29 percent).

Measurable achievements in the Institutional Development of RENARE included:

- RENARE was reorganized in hopes of providing a more functional, flexible structure for planning and implementing natural resource conservation programs.
- an increased staff of 104 people at RENARE. The target was 84;
- RENARE's central office had been remodeled;

- 24 percent of the project vehicles, and 22 percent of the heavy equipment were purchased;
- RENARE sponsored about 159 person/months of out-of-country training and 209 person/months of in-country short-term training;

Measurable activities for the Watershed Management component of the project, included the following:

<u>Activity</u>	<u>Planned</u>	<u>Completed</u>
Nursery Sites	21	10
Nursery Irrigation Systems	14	14
Nursery Buildings	12	5
Forest Ranger Stations	6	0
Roads	30 km.	7 km.
Forestry Plantations	7,000 hec.	2,000 hec.
Agro-forestry	2,500 hec.	2,400 hec.
Permanent Crops	1,500 hec.	-0- hec.
Technical Assistance to Private Industry	-0- hec.	3,000 hec.
Soil Conservation	8,650 hec.	500 hec.
Pasture Improvement	600 plots	136 plots
Park Reserves Protected	103,000 hec.	22,500 hec.

The technical assistance to private industry was not envisioned in the beginning of the project. However, it appeared that it was a very cost effective approach to reforestation. Instead of RENARE planting trees on private property, the land holder purchases trees from RENARE nurseries and plants them himself. In addition to providing the trees, RENARE also provided technical assistance for planting and care of trees. The majority of funds in the Watershed Management component had been spent in the Canal Watershed. Thirty-six percent of budgeted funds for the Canal Watershed had been distributed. Soil conservation efforts have lagged, with less than one percent being disbursed. Both the La Villa and Caldera watersheds had less than one percent of budgeted funds disbursed. But project activities have recently picked up in these watersheds.

The Education and Research component of the project showed the least amount of measurable progress. RENARE was given a number of school buildings in the Canal Zone which were to be remodeled and equipped. However, a dispute existed between RENARE and the Ministry of Education over the buildings. As a result, less than one percent of budgeted funds had been disbursed. No construction had been completed on the buildings or remodeling of the library, soil and water laboratory, training center, or wood technology laboratory. However, about 95 percent of the wood technology equipment, 50 percent of the soil lab equipment and 10 percent of the education equipment had either been received or was on order. Research activities have been slow in starting-up because of uncertainties surrounding the remodeling of facilities.

Although RENARE made efforts to retain the buildings, the Minister of Education was bussing children from the city of Panama to these school buildings in an attempt to regain control of the facilities. RENARE was understandably reluctant to commit project funds to remodeling these buildings until the question of authorized possession was settled. When we visited RENARE headquarters, we did note that the wood technology equipment was installed and in use in one of the buildings.

The dispute over control of the buildings delayed the remodeling of the library and training center for the Education component of the project. Another weakness in the Education component was in the area of publication. RENARE was to prepare leaflets and brochures to educate communities in the watersheds on conservation. Few publications had been produced because the reforestation component of the project received a higher priority. The project manager told us that once the technical assistance is given, publication activity should increase.

Based on our review, we concluded that the project had made some inroads in accomplishing its main purposes. In addition, the Mission's monitoring of project activities, both from the technical and financial side was commendable. However, the project did have some technical problems and very serious administrative and financial problems. The roots of these problems were: (a) delays by RENARE in acquiring advisory services for the technical part of the program; and (b) the failure of RENARE to obtain needed advisory or technical assistance on the administrative and financial side.

Technical Assistance

Although the project started in March 1979, the bulk of technical assistance was not contracted for until July 1981. As of September 30, 1981, only \$40,218, or 4 percent of the planned \$1.1 million for technical assistance had been disbursed. Lack of the required technical assistance detailed in the loan agreement was a major limiting factor for the project up until July 1981. A comparison between required and contracted technical assistance as of September 30, 1981 follows:

<u>AREA</u>	<u>PERSON/MONTHS OF TECHNICAL ASSISTANCE</u>		
	<u>Required</u>	<u>Contracted</u>	<u>Over(Under)</u>
Watershed Management	45	48	3
Tropical Forestry	30	24	(6)
Forestry Reserve and Park Management	24	28	4
Humid Tropics Ecologist	12	12	0
Soil & Water Conservation	12	12	0
Public Administration	6	0	(6)
Tropical Pasture Management	6	0	(6)
Anthropologist	3	6	3
Others not specified	3	3	0
Total	141	133	(8)
	===	===	===

Prior to July 1981, RENARE had contracted for or received only 34 person/months of technical assistance for the project. For some reason, RENARE was reluctant to contract for the required technical assistance. USAID/Panama's project manager was finally able to persuade RENARE to sign a project implementation order for technical assistance. In July 1981, AID signed a \$745,863 contract with Experience Incorporated to provide 99 person/months of technical assistance in the areas of Agro-forestry, Watershed Management, Tropical Forestry, Soil and Water Conservation, Home Office Support and Humid Tropical Ecology. The project did receive an amount of free technical assistance from various international organizations and AID's Regional Office for Central American Programs located in Guatemala.

Although most of the technical assistance called for in the loan agreement was being received, RENARE had not obtained any of the 6 person/months for Public Administration. Technical assistance in the area of financial management and administration had become the major limiting factor for the project.

At the time of our audit, the major problems with the Watershed Management project was poor financial management and project administration at RENARE. We believe the main reason for this shortfall was the lack of technical assistance in these areas.

The project had virtually come to a standstill because the \$950,000 revolving fund advance was depleted. This depletion was caused by: 1) RENARE's inability to properly document reimbursement requests; 2) RENARE's usage of the fund to finance and, later claim, ineligible costs; and 3) RENARE's slow submission of vouchers.

About 30 percent of the dollar amount claimed on the first 100 vouchers submitted by RENARE was disallowed or suspended by the Mission Controller's Office, primarily for inadequate documentation.

In addition to poorly documented vouchers, RENARE had not been submitting vouchers in a timely manner. The combination of these two factors had left the revolving fund account with a \$309,685 deficit as of October 30, 1981 and forced RENARE to miss its November 16th payroll to temporary laborers. The lack of technical assistance was also evident at RENARE in such areas as personnel and payroll management, inventory control, and general project accounting.

In sum, it is our opinion that the implementation of this project has made significant progress towards achieving the desired objectives. However, we believe that the depth of the administrative and financial problems noted in this report, represent a threat to the satisfactory achievement of one of the primary project purposes -- to strengthen the technical, managerial, and administrative capabilities of RENARE. Without proper financial management and administration at RENARE, we believe there is a danger that the other project objectives will not be achieved. The administrative and financial management of this project at RENARE cannot continue in such disarray and we see an urgent need for RENARE to acquire technical assistance to strengthen its administrative and managerial capabilities.

Recommendation No. 1

USAID/Panama should require RENARE to obtain, within a given time frame (perhaps 90 days), the required technical assistance to improve its financial management and administrative capabilities. If the services are not obtained within the established time frame, then, USAID/Panama should consider suspending further disbursements until the advisory services are obtained.

Controls Over Personnel and Payroll

The controls over temporary personnel and payroll at RENARE were inadequate because: (1) the computerized payroll records did not show an accurate listing of all laborers assigned and working in specified areas of the canal watershed; and (2) there was no control mechanism to stop the issuance of payroll checks, by identifying persons who resign from the temporary work force. As a result, the integrity of payroll expenses was not known.

We attempted to match the RENARE computer payroll listing against the time sheets in two areas of the canal watershed -- areas #2 and #5 -- in order to verify the integrity of the payroll system. We sampled 150 names from the payroll listing and traced them to the actual laborers during our field visits. We found 38 laborers who were not working in the area where the payroll listing said they were. Upon further investigation, it was determined that these 38 laborers had been working in other project locations. We also found an additional 24 names on the time sheets in areas 2 and 5, which did not appear on the computerized payroll listing for those areas. Therefore, the computer listing was incorrect for 62 of the 174 workers we included in our test check.

We believe the problem was with the computer listing input system. The computer input on worker location information for temporary laborers had not been accurate. Until the computer listing accurately reflects worker location, the integrity of the payroll system cannot be verified.

During our audit, we also noted a number of payroll checks being returned to RENARE headquarters because temporary laborers had resigned and were no longer entitled to paychecks. The payroll checks continued to be issued after laborers resigned because there was no procedure for notifying RENARE headquarters about resignations. Payroll checks for temporary laborers continue to be issued unless they are returned with a note that the laborer has resigned.

We believe RENARE should improve its controls over personnel by upgrading the accuracy of its payroll listings to reflect the correct location of its temporary employees. Controls should also be established to prevent the issuance of erroneous checks by notifying the RENARE personnel office of worker resignations.

Recommendation No. 2

USAID/Panama should require RENARE to improve the accuracy of its payroll printout through correct input of work location for its temporary laborers.

Recommendation No. 3

USAID/Panama should require RENARE to improve its controls over temporary personnel through a system which notifies the payroll department, in a more timely manner, when laborers resign or do not work a full pay period.

Voucher Claims and Reimbursements

USAID/Panama provided RENARE with advances up to \$950,000, which were used to maintain a revolving fund. Our review showed that RENARE experienced serious problems in using this revolving fund and with its reimbursement claims. Vouchers were being submitted as much as 4 months late and also 29 percent of all project expenses claimed by RENARE were initially considered by the Mission as either not fully supported or ineligible for reimbursement. There had been some improvement in the rate of acceptance at the time of our audit. Nevertheless, we concluded that payroll costs of \$80,638 were ineligible; USAID/Panama correctly rejected \$223,306 of the cost submitted by RENARE because they were clearly ineligible, and suspended \$495,463 in costs which appeared to be eligible if properly supported. The way RENARE managed its revolving fund account created a \$309,685 deficit as of October 30, 1981, and caused it to miss its November 16th payroll.

(a) Delays in voucher submission

Reimbursement vouchers were being submitted late; this created problems for RENARE. For example, no vouchers were submitted to the Mission for a period of 44 days -- from July 29 to September 11, 1981. Then RENARE submitted 9 vouchers in a period of 11 days covering project activities as far back as May 1981. Another 30 days passed before 9 more vouchers were submitted. The combined reimbursable value of these 18 vouchers was \$497,225. We believe RENARE should submit vouchers on a more timely basis. In addition, more care must be taken in voucher preparation to assure that all the necessary documentation and approvals are submitted with the voucher.

The net effect of submitting project vouchers late and without proper documentation is that as of October 30, 1981, RENARE had a \$309,685 deficit in its revolving fund account. Because of the deficit, RENARE was unable to meet its November 16th payroll for temporary laborers.

To help keep track of voucher submissions and drawdowns on the revolving fund, RENARE should reconcile its revolving fund on a monthly basis. This would permit the periodic reevaluation of the amount advanced and assure that it meets project needs.

Upon reviewing the history of RENARE voucher submissions, we noted an improvement in voucher documentation since the Mission Controller's office started working with RENARE's accounting department. Our analysis showed that for the first 49 vouchers submitted, the disallowance/suspension rate was 35 percent. Ninety percent of the disallowances or suspensions (\$492,375) were caused by improper documentation. On voucher numbers 50 through 100, there was a reduced disallowance/suspension rate of 24

percent. Improper documentation accounted for 67 percent of all disallowances. For the last 15 vouchers in this group (86 through 100), the disallowance/suspension rate was down to 18 percent of the dollar value. Only 26 percent of these disallowances or suspensions were caused by improper documentation. The bulk of disallowances or suspensions for the last group of vouchers were for counterpart costs which RENARE submitted to the Mission for reimbursement. Disallowances for counterpart expenses were presented by RENARE to the Ministry of Agriculture as a RENARE project expense.

Recommendation No 4

USAID/Panama should require RENARE to (a) submit reimbursement claims in a timely and periodic manner; and (b) submit monthly reconciliation reports of its revolving fund.

(b) Reimbursable Costs

RENARE submitted 100 vouchers claiming costs totaling \$3,624,029 for the period from the inception of project activities through September 30, 1981. USAID/Panama's Controller suspended or disallowed \$1,044,850 of these claims. The primary reason for the suspensions or disallowances was the lack of supporting documentation. After this first rejection of costs by the Office of the Controller, RENARE resubmitted 40 vouchers and the Mission allowed an additional \$326,081 in claims. At the time of our audit, USAID/Panama had accepted \$2,905,260 and there remained \$718,769 in unresolved suspensions or disallowances.

Our examination included an analysis of all cost items. Our conclusions are stated as follows:

	<u>Per USAID/Panama</u>	<u>Per Auditors</u>	<u>Costs Recommendations</u>
Total Costs Claimed	\$3,624,029	\$3,624,029	-0-
USAID/Panama Determination & Unresolved Suspensions or Disallowances	(718,769)	-0-	\$718,769
RIG/A/LA Cost Recommendations:			
Disallowable Costs			
From Unresolved Suspensions		(223,306)	(223,306)
From Reimbursed Costs		(80,638)	(80,638)
Suspended Costs			
Pending Proper Documentation and Further Analysis by USAID/Panama, these costs may be eligible		(495,463)	(495,463)
Acceptable Costs	<u>\$2,905,260</u>	<u>\$2,824,622</u>	<u>(\$80,638)</u>

The sections that follow provide details on the disallowable and suspended costs.

(c) Unresolved Ineligible Costs

Our analysis of the unresolved suspensions showed that \$223,306 were not eligible for reimbursement because of the following reasons:

Counterpart Costs	\$168,899
Taxes	18,819
Gasoline	61
Mathematical Errors	6,894
Non-eligible Expenses	<u>28,633</u>
	\$223,306
	=====

These costs were paid from funds in the revolving fund account. Since these funds were being used for unauthorized purposes, RENARE should deposit this amount into the revolving fund.

Recommendation No. 5

USAID/Panama should inform RENARE to deposit \$223,306 in the revolving fund; and ensure that these costs are not claimed in the future.

(d) Ineligible Costs

Our review of RENARE billing documents and reimbursement vouchers showed that \$80,638 should not have been considered allowable because most of it should be paid from counterpart funds and, therefore, GOP costs. These costs are ineligible because: (1) 20 percent of temporary manual labor expenses was not deducted from several vouchers resulting in a \$63,191 overpayment; and 2) the RENARE documents included incorrect salary payments to temporary laborers of \$17,447 due to unadjusted payroll totals.

On April 3, 1980, the Mission issued Implementation Letter No. 13 formalizing an understanding with RENARE to expedite AID's financial review process for reimbursement requests. AID and RENARE agreed that 80 percent of the expenditures for temporary manual laborers in the Canal Watershed would be reimbursed by AID. Documentation from RENARE for these expenditures would be reduced to a single certification of the number of workers and the amount they were paid. This reimbursement formula was agreed to by USAID/ Panama and RENARE to compensate for possible inaccuracies of accounting for such temporary labor force. In a prior section of this report, we noted 62 (out of 174) instances where worker locations were erroneously listed on computer runs in addition to other billing errors. Therefore, the 80-20 reimbursement formula seemed reasonable for the period covered by our review. If conditions change and RENARE implements Recommendation Numbers 2 and 3 of this report, the Mission may want to reconsider adjusting the formula for future reimbursements.

The 80-20 reimbursement formula started with voucher No. 57. Since that time, AID should have paid only 80 percent of the gross salary figures submitted by RENARE. However, the Mission neglected to deduct 20 percent of

RENARE's reported expenditures for temporary laborers on several vouchers, and over \$63,000 was reimbursed to RENARE which should not have been paid. The oversight was discovered by the Mission and RENARE was notified in Reimbursement Request No. 77, that \$67,223.45 in salary payments would be disallowed according to the provisions of Implementation Letter No. 13. Vouchers affected by the oversight were numbers 61, 62, 64, 66, 72, and 74. The reimbursable balance of voucher No. 77 (\$4,032.00) was applied against the disallowance, leaving an unliquidated disallowance of \$63,191.45. We were unable to find where the balance of this disallowance was deducted from subsequent vouchers.

Our review of the payroll records at RENARE showed that AID was being billed on gross salary figures prior to adjustments for absenteeism and tardiness. For example, RENARE claimed \$88,610 in salaries for temporary laborers during the month of April 1981. The actual salary total for April, after adjustments for tardiness and absenteeism, was \$86,960. Therefore, the overclaim for April 1981 was:

Unadjusted salaries	\$88,610	
Adjusted salaries	86,960	
Overstatement of salaries	\$1,650	x 80% = \$1,320
	=====	=====

The estimated overbilling of salaries for temporary laborers from May 1980 thru November 15, 1981 totaled \$17,447.30; however, the exact amount reimbursed needs to be determined. Thus, the amount of funds claimed by RENARE which we consider ineligible are:

Payroll adjustments overcharge	\$17,447
Ineligible salary costs	63,191

	\$80,638
	=====

During our review, we brought the matter of ineligible salary costs to the attention of USAID/Panama officials and advised them that they should recover the amount of \$63,191 from RENARE. Subsequent to our discussions, USAID/Panama took action to recover this amount on reimbursement vouchers submitted by RENARE in December 1981 and January 1982. Since recovery has been made, we make no recommendation in this report.

Recommendation No. 6

USAID/Panama should review reimbursements for temporary labor from May 1980 thru November 15, 1981, and make appropriate adjustments for tardiness and absenteeism.

(e) Improperly Supported Costs

Our examination indicated the possibility that up to \$495,463 could be considered eligible costs, if RENARE submits proper supporting documentation and no other discrepancies are found by USAID/Panama. Therefore, the exact amount of eligible costs had not clearly been determined and this was affecting the availability of additional funding for RENARE. Thus, it is of mutual interest for both RENARE and USAID/Panama to resolve the questions on these improperly supported costs.

Recommendation No. 7

USAID/Panama should require RENARE to submit acceptable supporting documents to resolve the questions relating to the unresolved disallowances.

RENARE Project Accounting

RENARE was not recording loan drawdowns for excess property procurements and letters of commitment transactions in its project accounting records. Consequently, actual project disbursements were not known at RENARE.

The only charges for excess property procurements were for five vehicles RENARE received in February 1980. The current AID balance for project excess property disbursements was \$17,636. RENARE maintained a separate file, with the bill of lading for this shipment, showing \$32,150 as the cost of both purchasing and shipping the vehicles to Panama. These charges were not included in RENARE's accounting for project expenses.

In addition, letters of commitment drawdowns and charges were kept in a separate file outside of the accounting department. RENARE did not keep an accounting of letters of commitment charges or drawdowns. No letters of commitment disbursements were included in project accounting records. When we visited RENARE headquarters, we were unable to obtain a figure for total letters of commitment drawdowns.

Recommendation No. 8

USAID/Panama should require RENARE to include disbursements for excess property and letters of commitment in its project accounting records.

Quarterly Disbursement Reports

RENARE had not provided the Mission with quarterly financial reports as required by Implementation Letter No. 1. Consequently, no reconciliation of RENARE and AID records had been performed, and no counterpart expenditure reports had been submitted through November 1981.

Implementation Letter No. 1, dated May 29, 1979, requested that RENARE provide the Mission with quarterly disbursement reports to permit reconciliation of records and to enable the Mission to record counterpart expenditures. RENARE sent only two quarterly reports -- one covering the period from December 1980 through February 1981, and the other from March through May 1981. Without these reports, the Controller's office had to rely on the Project Manager and telephone contacts with RENARE to keep its records current. In addition, RENARE did not provide an accounting of counterpart expenditures in the two quarterly reports it submitted. The first report on counterpart expenditures was finally received in December 1981.

We believe that RENARE should be required to submit quarterly reports as provided for in the implementation letters. These reports should include an accounting of quarterly counterpart expenditures.

Recommendation No. 9

USAID/Panama should require RENARE to submit quarterly financial reports as requested in the implementation letter.

Inventory Controls

The inventory control system at RENARE was inadequate because it did not control the flow of incoming equipment and materials.

Equipment and materials were delivered to either RENARE headquarters in El Paraiso, or to the warehouse in Alajuela (Area No. 1). Deliveries were not recorded on control cards. RENARE officials told us that this equipment is accounted for when an inventory is taken if it was either in the warehouse or RENARE headquarters. Equipment in the field is not counted. The warehouse in Alajuela conducted such an inventory in June 1981, and the last inventory at RENARE headquarters took place in February 1980. These were the only inventory counts that have been conducted.

The only control on distribution of equipment was the signature of recipients upon delivery of items to project sites. The value of these receipts was questionable since deliveries to RENARE were not controlled. In addition, no follow-up was made to verify that equipment remained at project sites after delivery.

We believe that equipment and materials should be controlled from the time of receipt thru distribution. Also, an annual inventory count should be conducted to account for all equipment under RENARE control.

Recommendation No. 10

USAID/Panama should require RENARE to establish an inventory control system which provides for the recording of all equipment upon receipt, and an annual inventory count.

WATERSHED MANAGEMENT
Project No. 525-0191
Description of Project Activities

The three elements to achieve the project purposes are Institutional Building, Conservation Education and the design and implementation of Watershed Management Activities. These are described below:

Institution-building

RENARE was mandated by Panamanian law to undertake most watershed management related activities, and is, therefore, the focal point for institution building activities. When the project started, RENARE's capacity to undertake watershed management projects was limited. Its major area of experience and competence had been restricted to reforestation activities. RENARE required a new organizational structure which was program-oriented, with strengthened management and additional professional and sub-professional personnel. Technical assistance and staff training as well as additional physical facilities, vehicles and equipment were required elements for achieving an increased institutional capability. Institution-building activities included:

- 1) Reorganization -- RENARE was to be reorganized to provide a more functional, flexible structure to enhance its capability to plan and implement natural resource conservation programs;
- 2) A Strengthened Management System -- An AID-financed public administration expert worked with RENARE to formulate a strengthened management system to include a more formal management structure with new or strengthened personnel and procurement systems and additional key administrative personnel. It would also include the development of management manuals, functional job descriptions and other management tools;
- 3) Additional Personnel -- To facilitate the rapid expansion (84 personnel) which was necessary for RENARE to implement a substantially enlarged program, loan funds, not to exceed \$500,000 were provided to cover some of the initial additional personnel costs on a declining basis. The project required an additional 11 professionals and 46 sub-professional employees on RENARE's field staff; eight professionals and six sub-professionals on the central technical staff; and seven professionals and six sub-professionals on the central administrative staff;
- 4) Technical Assistance -- A total of 141 person/months of technical assistance was to be provided RENARE to upgrade its capacity to design and implement watershed projects;

- 5) Training -- A significant amount of training was to be financed with \$230,000 in loan funds. Training included specialized long-term training in the U.S. and at international training centers in other Latin American countries; extended inspection trips to observe actual implementation of watershed management and agro-forestry projects; and an extensive in-country training program; and
- 6) Equipment and Physical Facilities -- The project called for construction of headquarters building and related infrastructure amounting to \$250,000 and equipment costs of \$580,000 for office equipment, furniture, and specialized equipment.

Conservation Education.

A key element in the successful implementation of watershed management activities is the effective communication of the importance of rational resource use. RENARE is to develop an educational and information dissemination activity aimed at the target populations within the watersheds where the project will be implemented. For the implementation of the education program, RENARE will have a sociologist and a number of social workers who will visit communities in the target watersheds to learn about problems related to the program and give talks about the program; train project participants in techniques employed in the project; and coordinate with the Ministry of Education for the participation of area schools in the orientation of the communities. An information center will be established at RENARE headquarters to produce and disseminate informational materials on resource conservation, as well as educational and training materials for use in the watershed management program.

RENARE also proposed to establish a small-scale research program which would consist of simple applied research activities in three areas related to the more rational use of renewable natural resources -- erosion, water quality and tropical hardwoods technology.

Watershed Management Activities.

Activities in three watersheds -- the Canal, La Villa, and Caldera -- have dual objectives. They serve an institutional-building function by providing RENARE the opportunity to develop an organization capable of both designing and implementing watershed management projects. While the Canal watershed will provide significant implementation experience in a number of areas, the projects in the other two watersheds will contribute to the enhancement of RENARE's land use management planning and project design capabilities. They will also assist with initiating watershed management programs in the three high priority watersheds.

The Canal watershed required the development of a Land Use Management Strategy and funded activities for Reserve and Park Management, Reforestation, Soil Conservation and Pasture Improvement. The other two watersheds, Rio La Villa and Rio Caldera, require individual land use management plans and have activities in Reforestation and Soil Conservation.

EXHIBIT B

Watershed Management
 Project No. 525-0191
Overall Financial Plan (\$000's)

<u>Component</u>	<u>AID</u>	<u>GOP</u>	<u>Total</u>
INSTITUTIONAL DEVELOPMENT			
Personnel & Operating Expense	500	800	1,300
Technical Assistance	1,120	100	1,220
Training	230	-0-	230
Construction	185	20	205
Equipment & Materials	380	-0-	380
Land	-0-	80	80
Evaluation	50	-0-	50
Subtotal	<u>\$2,465</u>	<u>\$1,000</u>	<u>\$3,465</u>
EDUCATION & RESEARCH			
Personnel & Operating Expense	-0-	300	300
Equipment & Materials	450	-0-	450
Construction	85	-0-	85
Subtotal	<u>535</u>	<u>300</u>	<u>835</u>
WATSHED MANAGEMENT PROGRAMS			
Canal Watershed			
Reserve & Park Mgmt.	800	1,900	2,700
Reforestation	3,575	2,200	5,775
Soil Conservation	1,100	500	1,600
Pasture Improvement	275	200	475
Subtotal	<u>5,750</u>	<u>4,800</u>	<u>10,550</u>
Upper La Villa Watershed			
Watershed Management	110	250	360
Reforestation	315	50	365
Soil Conservation	275	-0-	275
Subtotal	<u>700</u>	<u>300</u>	<u>1,000</u>
Caldera Watershed			
Watershed Management	140	300	440
Reforestation	75	100	175
Soil Conservation	335	-0-	335
Subtotal	<u>550</u>	<u>400</u>	<u>950</u>
Subtotal	<u>7,000</u>	<u>5,500</u>	<u>12,500</u>
PROJECT TOTAL	<u>\$10,000</u> =====	<u>\$6,800</u> =====	<u>\$16,800</u> =====

EXHIBIT C

Watershed Management
Project No. 525-0191
Funding Status of AID Loan No. 525-T-049
As of September 30, 1981

<u>Component</u>	<u>Budgeted</u>	<u>Disbursed</u> <u>Amount</u>	<u>%</u>	<u>Difference</u>
<u>ADVANCE TO RENARE</u>	<u>\$ -0-</u>	<u>\$950,000</u>		<u>(\$950,000)</u>
INSTITUTIONAL DEVELOPMENT				
Personnel & Operating Expense	500,000	354,045	71	145,955
Technical Assistance	1,120,000	40,218	4	1,079,782
Training	230,000	48,299	21	181,701
Construction	185,000	-0-	0	185,000
Equipment & Materials	380,000	155,317	41	224,683
Evaluation	50,000	-0-	0	50,000
Subtotal	<u>2,465,000</u>	<u>597,879</u>	24	<u>1,867,121</u>
EDUCATION & RESEARCH				
Equipment & Materials	450,000	4,220	a/	445,780
Construction	85,000	-0-	0	85,000
Subtotal	<u>535,000</u>	<u>4,220</u>	a/	<u>530,780</u>
WATERSHED MANAGEMENT PROGRAMS				
Canal Watershed				
Reserve & Park Mgmt.	800,000	65,685	8	734,315
Reforestation	3,575,000	1,970,750	55	1,604,250
Soil Conservation	1,100,000	7,088	a/	1,092,912
Pasture Improvement	275,000	6,533	2	268,467
Upper La Villa Watershed				
Watershed Management Prgm	110,000	-0-	0	110,000
Reforestation	315,000	-0-	0	315,000
Soil Conservation	275,000	-0-	0	275,000
Caldera Watershed				
Watershed Management Prgm.	140,000	710	a/	139,290
Reforestation	75,000	450	a/	74,550
Soil Conservation	335,000	447	a/	334,553
Subtotal	<u>7,000,000</u>	<u>2,051,663</u>	29	<u>4,948,337</u>
Project Total	<u>\$10,000,000</u>	<u>\$3,603,762</u>	36	<u>\$6,396,238</u>

a/ Less than one percent.

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Panama should require RENARE to obtain, within a given time frame (perhaps 90 days), the required technical assistance to improve its financial management and administrative capabilities. If the services are not obtained within the established time frame, then USAID/Panama should consider suspending further disbursements until the advisory services are obtained.

Recommendation No. 2

USAID/Panama should require RENARE to improve the accuracy of its payroll printout through correct input of work location for its temporary laborers.

Recommendation No. 3

USAID/Panama should require RENARE to improve its controls over temporary personnel through a system which notifies the payroll department, in a more timely manner, when laborers resign or do not work a full pay period.

Recommendation No 4

USAID/Panama should require RENARE to (a) submit reimbursement claims in a timely and periodic manner; and (b) submit monthly reconciliation reports of its revolving fund.

Recommendation No. 5

USAID/Panama should inform RENARE to deposit \$223,306 in the revolving fund; and ensure that these costs are not claimed in the future.

Recommendation No. 6

USAID/Panama should review reimbursements for temporary labor from May 1980 thru November 15, 1981, and make appropriate adjustments for tardiness and absenteeism.

Recommendation No. 7

USAID/Panama should require RENARE to submit acceptable supporting documents to resolve the questions relating to the unresolved disallowances.

Recommendation No. 8

USAID/Panama should require RENARE to include disbursements for excess property and letters of commitment in its project accounting records.

Recommendation No. 9

USAID/Panama should require RENARE to submit quarterly financial reports as requested in the implementation letter.

Recommendation No. 10

USAID/Panama should require RENARE to establish an inventory control system which provides for the recording of all equipment upon receipt, and an annual inventory count.

LIST OF RECIPIENTS

	<u>No of Copies</u>
Deputy Administrator	1
Assistant Administrator - Bureau for Latin America and the Caribbean (LAC/CAR), AID/W	5
Mission Director, USAID/Panama	5
Assistant Administrator - Bureau for Science and Technology	1
Assistant Administrator - Office of Legislative Affairs	1
Office of Financial Management - (FM), AID/W	2
General Counsel (GC), AID/W	1
Audit Liaison Office (LAC/DP), AID/W	3
Director, OPA, AID/W	1
S&T/DIU/DI, AID/W	4
PPC/E, AID/W	4
Inspector General, AID/W	1
IG/PPP, AID/W	1
IG/EMS, AID/W	12
AIG/II, AID/W	1
RIG/A/W	1
RIG/A/Abidjan	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Karachi	1
RIG/A/Nairobi	1
RIG/A/NE, New Delhi Residency	1
RIG/A/LA, Panama Residency	1
RIG/A/LA, La Paz Residency	1
GAO, Latin America Branch, Panama	1