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REVIEW OF SELECTED AGRICULTURE SECTOR PROJECTS REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

AUDIT REPORT NO. 1-538-85-9

July 31, 1985

MEMORANDUM

July 31, 1985

FOR: D/RDO/C, James Holtaway

FROM: RIG/A/T, Coinage N. Gothard Jr.

Coinage N. Gothard

SUBJECT: Review of Selected Agriculture Sector Projects (Audit Report No. 1-538-85-9)

Attached is the report on our review of four RDO/C agricultural projects: Regional Agribusiness Development, Caribbean Agricultural Extension, St. Lucia Agriculture Structural Adjustment, and Farming Systems Research and Development. Our audit objectives were to assess the projects' prospects for success, and to selectively evaluate the efficiency of project operations, the adequacy of internal controls, and compliance with AID requirements.

The three projects managed directly by RDO/C were generally progressing smoothly. Two subloans funded by the Regional Agribusiness Development Project, though, were not meeting their objectives. Unused resources should be reprogrammed to productive purposes, and required project evaluations should be performed.

An automated information system funded by the St. Lucia Agriculture Structural Adjustment project was only partially completed, and those parts that were completed were not working well. The Banana Growers' Association should provide a concrete demonstration of its commitment to fully developing and utilizing the system, as a prerequisite to provision of further project support.

The Caribbean Agricultural Research and Development Institute's accounting system was generally sound, but further guidance to employees and periodic payment verifications are needed to better control AID funds.

Fairly serious internal control deficiencies existed in the St. Vincent sugar production loan program. The program should be suspended until appropriate control procedures are in place.

Management of cash advances by RDO/C was not in compliance with AID requirements and, in some cases, RDO/C project officers did not know whether required counterpart contributions had been made. Corrective actions were needed to improve internal controls and compliance with AID guidance.

We discussed our findings and recommendations at an exit conference with you and cognizant members of your staff, and we submitted a draft report for your review and comment. Your comments and suggestions were, for the most part, included in the final report.

Please advise this office within 30 days of the actions planned or taken to implement the six recommendations contained in this report. As you may be aware, initial responses to AID Inspector General Audit reports are routinely sent, together with the reports themselves, to several memebers of Congress, appropriate committees, and staff who have requested them.

EXECUTIVE SUMMARY

The Office of the Inspector General audited four of the nine active projects in the Regional Development Office/Caribbean's (RDO/C's) agriculture portfolio. The level of expenditures and/or project activity for the five remaining projects were not yet great enough to justify an audit. The Regional Agribusiness Development Project (538-0010), administered by the Caribbean Development Bank, provides loans to enterprises that expand or stabilize the market for small farmer produce, reduce small farmer production costs, or increase rural employment opportunities. The Caribbean Agricultural Extension Phase II Project (538-0068) aims to increase the effectiveness of eight national extension services and to increase the effectiveness of certain regional institutions involved in extension. The St. Lucia Agriculture Structural Adjustment Project (538-0090) includes land titling, market promotion, and banana replanting activities. The Farming Systems Research and Development Project (538-0099) is designed to develop, test, and disseminate improved farming technologies, and to strengthen the Caribbean Agricultural Research and Development Institute to the point that it can sustain a farming systems program as well as its other research programs.

The audit objectives were to assess the projects' prospects for success, and to selectively evaluate the efficiency of project operations, the adequacy of internal controls, and compliance with AID requirements. The audit covered $13.9 million in AID expenditures as of March 31, 1985, and included project activities from March 14, 1978 through May 16, 1985. RDO/C's cash advance management and monitoring of counterpart contributions were also evaluated. The audit was conducted in Barbados, Dominica, St. Lucia, St. Vincent, and Antigua.

Three of the projects we reviewed were generally proceeding smoothly, although problems were experienced in implementing some components. Two of the subloans under the Regional Agribusiness Development Project, however, were not meeting their objectives. We recommended that unused resources for the citrus production sub-project in Dominica be put to some productive use, and that required evaluations be performed. RDO/C concurred with this finding.

An automated information system funded by the St. Lucia Agriculture Structural Adjustment Project was not completed, and the parts that were completed were not working well. We recommended that the Banana Growers' Association demonstrate commitment to developing the system, as a prerequisite to reprogramming project funds for further development. The Mission agreed with this finding.

One of the Regional Agribusiness Development sub-projects -- a loan program for sugar farmers in St. Vincent -- lacked effective internal controls in the areas of loan approval, collateral, loan payment, and record keeping. We recommended that the program be suspended until appropriate procedures are in place. The Mission concurred with this finding.

While the accounting system funded by the Farming Systems Research and Development Project was generally sound, improvements were needed to provide for appropriate accounting for advances, and to ensure that established procedures were followed consistently. We recommended that the accounting manual be modified, that additional guidance be provided to employees, that periodic payment verifications be made, and that questioned costs be supported or recovered. RDO/C agreed with this finding, but maintained that the accounting system had established unusually good control over project funds.

RDO/C's advance management practices did not comply with AID requirements, and its reports on outstanding advances tended to overstate some projects' cash requirements. We recommended that RDO/C improve its control over cash advances. RDO/C prepared a revised report which showed a much smaller amount of excess advances. Before closing the recommendation, we plan to evaluate this report, and determine whether advances have been reduced to no more than ninety days' cash requirements, by comparing actual outlays to advances. RDO/C also stated that the Director had prepared a written determination waiving the thirty day rule which normally applies to AID advances.

In some cases, RDO/C project officers did not know whether required counterpart contributions had been made. We recommended that RDO/C require its borrower/grantees to submit periodic reports on their contributions to projects. RDO/C did not agree with the recommendation, and proposed that project officers be required to include information on counterpart contributions in the semi-annual project reports, based to the maximum practicable extent on borrower/grantee reporting. We retained the original recommendation, because we believe that if a borrower/grantee were unable to report on its contributions to a project, this would reveal an internal control problem which the Mission should take action to correct.

Office of the Inspector General

REVIEW OF SELECTED
AGRICULTURE SECTOR PROJECTS
REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

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PART I - INTRODUCTION

A. Background

The Regional Development Office/Caribbean (RDO/C) manages bilateral programs with six island nations: Antigua, Dominica, Grenada, St. Kitts/Nevis, St. Lucia, and St. Vincent and the Grenadines. It also supports regional development institutions that cover the broader English-speaking Caribbean.

In the less developed countries of the Eastern Caribbean, with the exception of Antigua, 25 to 50 percent of the labor force depends on agriculture as its major source of income. Agriculture is the major contributor to gross domestic product and, again excepting Antigua, the largest foreign exchange earner. However, production of traditional export crops such as sugar and bananas is declining, and nearly all export sales are made at preferential prices. The agricultural trade balance is deteriorating as the cost of food imports rises and, in several nations, foreign exchange generated by agriculture in real terms has declined.

Probably the most important constraint to agricultural development is the lack of access to national, regional, and international markets. The less developed countries of the region have poor roads, inter-island shipping, storage facilities, and market information systems; and lack well-organized trading companies. Another constraint is the lack of adequate incentives for investment in agriculture, caused by uncertain land tenure and administratively controlled prices. A third impediment is a lack of familiarity with improved farm technologies. Finally, the supply of credit and other inputs needed in order to benefit from improved technologies, such as seeds, fertilizer, herbicide, and pesticide, is inadequate.

To address these constraints, RDO/C has nine active projects in its agriculture portfolio, with life-of-project AID funding of about $40 million. A description of the four projects we audited follows.

The Regional Agribusiness Development Project (538-0010) began on March 14, 1978 and is scheduled to end on March 14, 1986. The total authorized funding is $6.8 million, of which $6.5 million is provided by AID, and $260,000 by the Caribbean Development Bank (CDB). CDB established an Agribusiness Development Fund for enterprises which expand or stabilize the market for small farmer production, reduce their production, costs, or increase employment opportunities for rural workers. Eleven subloans for a total of $6.4 million had been approved when we completed our field work.

The Caribbean Agricultural Extension Phase II Project (538-0068) is authorized funding of $7.2 million ($5.9 million from AID and $1.3 million in counterpart contributions). The project agreement was signed on August 31, 1982, and the project assistance completion date is July 31, 1986. The project aims to (1) increase the effectiveness of national extension services in Antigua, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia, St. Vincent, and Belize; and

(2) increase the effectiveness of selected regional institutions involved in agricultural extension. Project inputs include training, equipment, and technical assistance.

The St. Lucia Agriculture Structural Adjustment Project (538-0090) is authorized $9.5 million in AID funds and $3.2 million from the Government of St. Lucia, for a total of $12.7 million. The project agreement was signed on March 29, 1983; the project is scheduled to end on December 31, 1987. The major project activities are land titling, market promotion, and support for banana replanting.

The Farming Systems Research and Development Project (538-0099) is authorized $13.2 million over the life of the project, including $7.5 million in AID funds and $5.7 million in counterpart contributions. The agreement was signed on July 15, 1983; the project assistance completion date is June 30, 1988. The project outputs are (1) a minimum of 42 technological improvements, (2) technology transfer to farmers, and (3) strengthening of the Caribbean Agricultural Research and Development Institute to the point that it can continue the Farming Systems Research and Development Program as well as its other programs.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa audited four of RDO/C's nine agricultural projects. The other five projects had not yet attained a sufficient level of expenditures and/or project activity to justify an audit. The audit covered activities for the period March 14, 1978 through May 16, 1985, and included reviews of $13.9 million in AID expenditures as of March 31, 1985. Three of the projects had not been audited previously, but the Regional Agribusiness Development Project was audited by our office in 1980 (Audit Report No. 1-538-80-8).

The audit objectives were to:

-- determine whether the projects had achieved, or were likely to achieve, the intended results; and

-- selectively evaluate the efficiency of project operations, the adequacy of internal controls, and compliance with AID requirements.

To accomplish these objectives, we reviewed project files and interviewed responsible officials at RDO/C and at the regional and local institutions implementing the projects. We evaluated field activities in Antigua, Dominica, St. Lucia, and St. Vincent. We reviewed project internal controls and performed other reviews and tests we considered necessary.

To evaluate the Regional Agribusiness Development Project, we reviewed project files and interviewed CDB officials concerning procedures for subproject selection and supervision. We performed more detailed reviews of six of the eleven subloans made, which accounted for 59 percent of the total amount approved as of December 31, 1984. The six subloans we examined in detail were: St. Lucia Exotic Plants, St. Lucia Consolidated Line of Credit, Dominica Citrus Production, Antigua Farm Improvement Credit, the St. Vincent Sugar Factory, and St. Vincent Sugar Agriculture Credit.

To address two mission-wide issues that surfaced during our survey of the four agricultural projects, we performed a detailed analysis of RDO/C's outstanding advances, and obtained information on how counterpart contributions were monitored for 40 of RDO/C's 46 projects.

The audit was made in accordance with generally accepted government audit standards.

We discussed our findings and conclusions at an exit conference with RDO/C officials, and submitted a draft report for Mission review and comment. The Mission's comments are presented in Appendix I.

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PART II - RESULTS OF AUDIT

The Office of the Inspector General for Audit/Tegucigalpa conducted a program results audit of four of RDO/C's agricultural projects. The audit objectives were to determine whether the projects would achieve the intended results, and to selectively evaluate the efficiency of project operations, the adequacy of internal controls, and compliance with AID requirements.

Three of the projects were progressing satisfactorily, but two of the sub-projects under the Regional Agribusiness Development Project were not achieving the intended results. These sub-projects were not achieving their objectives because the sugar factory in St. Vincent was poorly managed and because the Citrus Growers' Association in Dominica was unable to market its produce. In general, satisfactory systems to measure effectiveness had been established, but RDO/C needed to monitor the progress of the Regional Agribusiness Development Project more closely.

An automated accounting and management information system, funded by the St. Lucia Agriculture Structural Adjustment Project, had not been completed and the parts that had been completed were not working well.

Better internal controls were needed to administer the Farming Systems Research and Development Project, as well as the loan program for St. Vincent sugar farmers funded by the Regional Agribusiness Development Project.

RDO/C needed to improve management of project advances to comply with AID requirements, and to monitor counterpart contributions more closely.

The report makes recommendations to reprogram unproductive resources, increase the chances for successful development of the automated information system, and improve internal controls and compliance with AID requirements in particular projects and in RDO/C.

RDO/C generally concurred with the findings and recommendations in this report. However, it provided a revised report on outstanding advances which showed a much smaller amount of excess advances than its original report. The Mission was also concerned that our recommendation number 6 would require an unreasonable level of effort given its current resources. However, we have retained the original recommendation. In our opinion, borrower/grantees who are unable to report on counterpart contributions cannot be maintaining adequate control over them.

A. Findings and Recommendations

1. Program Results

The St. Lucia Agriculture Structural Adjustment Project, the Farming Systems Research and Development Project, and the Caribbean Agricultural Extension Project were, on the whole, working well, and it appeared that they would largely achieve the intended results. However, two of the six Regional Agribusiness Development sub-projects we examined (the citrus production sub-project in Dominica and the sugar factory sub-project in St. Vincent) did not appear to have the potential to become viable activities. The sugar factory had been poorly managed and was heavily indebted, while the Citrus Growers' Association in Dominica had been unable to market its produce. Also, evaluations required by the project agreement had not been performed. As a result, the sugar factory was losing more than a million dollars each year, and resources for the project in Dominica were not being used.

> Recommendation No. 1
>
> We recommend that RDO/C:
>
> a) in cooperation with the Caribbean Development Bank, perform the project evaluations required by the Regional Agribusiness Development loan agreement; and
>
> b) obtain evidence that the Caribbean Development Bank has (i) requested the National Commercial and Development Bank in Dominica to immediately repay that portion of the subloan which is not being used, and (ii) has authorized the Bank to appropriately dispose of unused agricultural inputs.

Discussion

Regional Agribusiness Development

The Caribbean Development Bank (CDB) had made eleven subloans with project funds. Four of the six subprojects we reviewed appeared to be achieving the intended results. However, the sugar factory project in St. Vincent and the citrus production project in Dominica were not working well. CDB officials were aware of the problems but had not corrected them.

St. Vincent Sugar Industry One of the subloans, for $2.2 million, was made to the Government of St. Vincent in October 1980, for completion of a sugar factory to be operated by St. Vincent Sugar Industry, Ltd., a government-owned corporation. During its first three years in operation, the company showed losses ranging from $1.5 to $1.8 million, and the factory manager projected a loss of $1.3 million in 1985. By way of comparison, the loan appraisal predicted losses ranging from $100,000 to $500,000 in the first three years, and a $400,000 profit in the fourth year of operation. According to an authoritative source in the company, the factory should never have been built. He said that the Prime Minister wanted to close the factory, but had not announced a decision publicly.

According to CDB and St. Vincent Sugar Industry officials, the company's poor performance was due to several factors:

-- The company's consultants were not qualified, and consistently underestimated construction costs.

-- Implementation delays totalling sixteen months led to factory construction cost overruns.

-- Prices established for sugar cane and refined sugar for local consumption were both too low.

-- The company used bank overdraft financing for funding day-to-day operations, increasing interest costs.

-- Arrangements for transporting cane to the factory were inadequate.

-- The company was poorly managed.

As a result of these problems, St. Vincent Sugar Industry, Ltd. had a debt of about $13.2 million, and was losing more than a million dollars each year.

Dominica Citrus Production Another subloan, for $176,000, was made to the National Commercial and Development Bank in Dominica, to provide production credit to citrus growers. The planned market for the produce was Great Britain.

According to officials involved in the project, there was almost no demand for loans because of marketing problems. As a result, resources were lying idle which could be reprogrammed to a productive purpose.

The subloan agreement was signed on September 15, 1981, at a time when the British pound began to fall relative to the U.S. dollar, according to a CDB source. Because the inputs were priced in dollars, it became unprofitable to market citrus there. CDB officials stated that the Growers' Association tried to secure markets in the United States and Canada and to buy inputs priced in pounds, but those attempts were all unsuccessful. Also, the CDB authorized the Bank in Dominica to make loans to a wider group of citrus farmers, and to sell fertilizer to non-citrus farmers. Still, by the last quarter of 1984, loans to farmers and sales of inputs had almost come to a halt. Between October 1 and December 31, 1984, the National Commercial and Development Bank made four loans for a total of only $1,037. During the same period, the Bank sold $406 worth of agricultural inputs. According to the Manager of the National Commercial and Development Bank and the President of the Citrus Growers' Association, the loan program was not operating successfully, and they were not optimistic that it could operate successfully.

On December 31, 1984, the Bank had $140,848 in cash available, and had $7,542 worth of field boxes, Malathion, Sluggit, and mineral oil on hand. These resources were essentially lying idle, and should be put to a productive use.

The design of the Regional Agribusiness Project gave considerable autonomy and responsibility to the CDB in areas such as identification of sub-projects, appraisals, and supervision. We believe that the results we found in St. Vincent and Dominica show that RDO/C needs to involve itself more closely in projects administered by the Bank. Also, according to RDO/C officials, annual evaluations required by section 6.3 of the loan agreement were not conducted, apparently because this was not considered a high priority. Those evaluations should be performed so that RDO/C management can be made aware of problem areas, and can ensure that corrective actions are taken.

St. Lucia Agriculture Structural Adjustment Project

The largest activity under this project, which accounted for 74 percent of the project budget, was to undertake a survey of all land outside the National Forest Reserve and the Castries (national capital) metropolitan area, create a land registry system, and provide loans for converting family-owned lands to individual ownership. This activity appeared to be well organized and generally proceeding smoothly. It appeared that this component would achieve the intended results; that is, it would improve small farmer access to land and establish secure property rights. The other two components were not working as planned.

No funds had been disbursed for the market promotion component, except for short-term technical assistance, because the Government of St. Lucia had not yet adopted a marketing strategy to satisfy a condition precedent to AID disbursements. According to the project paper, agreement on a marketing strategy was to be reached by September, 1983.

The Deputy Director for Planning, Ministry of Finance and Planning, explained that there were several reasons for the delay. The Government was occupied for several months preparing a five-year plan, and it was considered premature to adopt a marketing strategy before that plan was completed. The Ministry of Agriculture had trouble organizing a task force to develop the strategy, and the first chairman resigned after four meetings. One member died shortly after the task force resumed its deliberations under a new chairman, and two other members never participated. Finally, according to the Deputy Director, the marketing strategy report prepared by an AID-funded consultant was weak and incomplete.

The delay in initiating activities under this component, which included establishment of a market promotion unit, financing for private traders, and improvements to Ministry of Agriculture plant propagation units, was unfortunate since many officials we interviewed considered marketing one of the largest, if not the largest, constraint to agricultural development in St. Lucia. We are not making a recommendation since RDO/C had repeatedly expressed to the Government of St. Lucia its interest in starting this component's activities, and since it appeared that a marketing strategy could be approved soon after we completed our field work. RDO/C should monitor this component's progress closely, however.

According to project officials, the major activities under the banana replanting component, which was to support replanting of 2,000 acres, application of agricultural inputs on this acreage at recommended rates, and extension and research activities, had not been implemented. However, Government and RDO/C officials maintained that these activities were no longer needed because banana production had increased tremendously since the project agreement was signed. A grant agreement amendment was being planned to reprogram funds from the banana replanting component to other project activities.

Farming Systems Research and Development

The purpose of this project was to create an effective and sustainable farming systems research and development program within the Caribbean Agricultural Research and Development Institute, a regional institution largely supported by the twelve Caribbean Community and Common Market countries. In terms of the quality and quantity of research that was being done, the project appeared to be proceeding well, but in our opinion the program could not be sustained without further AID assistance because of the Institute's poor financial condition.

The project established specific goals for the number of technologies to be developed; actual progress compared favorably with the goals established. For example, according to information in a draft report provided by the Institute's Project Manager, the Institute had performed 35 exploratory experiments by September 1984, compared with its goal of 24 experiments. Similarly, the Institute had conducted seventeen on-farm tests, compared with eight planned by September 1984. On-farm validation of six technologies was underway or complete, exactly the number planned. Ministry of Agriculture and other extension officials we interviewed were satisfied with the quality of the work done. The process of technology transfer had just begun, but again, extension officials we interviewed were satisfied with the Institute's performance.

However, the program did not appear to be sustainable without further AID assistance, because of the Institute's financial problems. In March 1985, the Institute proposed to reduce its contributions to the project by 56 percent to $2.1 million, and to defer a larger proportion of its contributions until later years. The proposal also included a plan for improving the Institute's financial condition, but weaknesses in the plan, in our opinion, made it uncertain that its objectives would be achieved.

First, the plan was based on the optimistic assumption that the Caribbean Community and Common Market countries' economies would improve, and that their governments would therefore increase their payments to the Institute. (The Institute estimated that as of January 31, 1985, $1.5 million in government contributions were in arrears -- an amount equal to 50 percent of its annual operating budget.) We did not have readily available information on the economies of each of the Caribbean Community and Common Market countries. However, the Inter-American Development Bank's 1984 report on Economic and Social Progress in Latin America indicated that the near-term economic outlook for Jamaica and Guyana (which the Institute said accounted for 50.5 percent of the government contributions in arrears as of January 1985) was poor. On the other hand, the report anticipated economic recovery in Barbados (which the Institute estimated owed [illegible] percent of the amount in arrears). Whether economic recovery would lead to more timely contributions to the Institute was a question outside the scope of our audit.

Second, the plan projected that $70,000 per year could be saved through better planning and monitoring of operating expenses, but the Institute had not identified specific areas where savings could be achieved. Thus, we consider the projected savings an essentially arbitrary goal which may or may not be achieved.

Third, the plan stated that a trust fund would be established to fund core operations and special research efforts. Since the Institute was having difficulty meeting its current obligations (as of January 1985, its bank overdrafts totalled more than $400,000), we doubt that a trust fund is feasible in the near or medium term.

Caribbean Agricultural Extension Project

While not all of the planned improvements had taken place, the Caribbean Agricultural Extension Project appeared to be achieving its purpose of increasing the effectiveness of public and private extension services in eight nations, and increasing the effectiveness of selected regional institutions that support the national extension services. Many of the improvements the project was trying to effect (for example, improving the quality of planning and supervision) were difficult to measure with precision. Nonetheless, project staff and extension officials were able to demonstrate that significant progress had been made. In a few areas, the project had not been as successful as planned, or further improvements were needed. The extent of the project's success varied from country to country depending chiefly, in our opinion, on the commitment of the extension staff involved.

Each of the extension services involved in the project were preparing annual work programs. However, the Project Officer noted that this was a new activity, and that use and monitoring of the plans was weak. Also, the linkage between planning and budgeting needed to be strengthened. Ideally, extension staff would prepare a plan to support their budget request, and then revise the plans based on the amount actually received. According to project staff, most of the extension services were not yet this sophisticated.

Another planned project output was an increase of more than 300 percent in the number of extension agent-farmer contacts, through increased use of group methods of communication and greater mobility of extension agents using project vehicles. It did not appear likely that this goal would be reached. Opinion was divided among RDO/C, extension, and project officials, but most believed there had been some increase in contacts, although not of the magnitude planned. The results of a 1984 survey of extension agents, however, indicated that the number of active farmer contacts had actually fallen between 1981 and 1984. The Project Officer speculated that this could simply mean that in 1981 the agents exaggerated the number of farmers they dealt with. He also believed that the original goal was unrealistic.

According to the Project Officer, training had not reached frontline extension agents and their direct supervisors to the extent planned. He said that travel costs had been a constraint, and that the first priority had been to reach top managers.

It did not appear that extension newsletters would reach 25 percent of all farm households, as had been planned. For example, the Windward Islands Coordinator told us that the newsletter in St. Lucia was reaching perhaps 5 or 6 percent of the country's farmers, and the Chief Extension Officer in St. Vincent told us that the newsletter there reached about 7 percent of all farmers.

Another planned output was to establish a one-year Diploma in Extension program as an ongoing, permanent course at the University of the West Indies. According to the Project Officer, it was doubtful that this goal could be achieved since the program was largely supported by project funds. On the other hand, RDO/C's Agriculture and Rural Development Officer pointed out that convincing the University to offer the program at all was a major accomplishment since it was a practical course and at times the University's outlook was overly academic.

When we finished our field work, RDO/C was considering a three-year project extension with additional funding. We are not making a formal recommendation, but the areas outlined above should receive concentrated attention during the remainder of the project.

The three projects which RDO/C managed directly appeared to be largely successful, although problems were being experienced in implementing particular components or in achieving certain planned outputs. The Regional Agribusiness Development Project, in which the Caribbean Development Bank was given a great deal of autonomy for project implementation, was experiencing more severe problems. RDO/C needs to involve itself more closely in this project. The evaluations required by section 6.3 of the Loan Agreement should be conducted so that RDO/C will be aware of the need for corrective actions. Also, we believe that in the future RDO/C should exercise caution to avoid granting too much autonomy for project implementation to regional institutions.

Management Comments

RDO/C concurred with recommendation number 1. It planned to complete the evaluations required by the Regional Agribusiness Development loan agreement by December 1985. Also, RDO/C stated that it would move immediately to have the CDB ask the National Commercial and Development Bank in Dominica to repay the unused portion of the subloan for citrus production, and to authorize the Bank to dispose of warehoused agricultural inputs.

2. St. Lucia Banana Growers' Association Automated Accounting System Was Not Completed and Not Working Well

One of the St. Lucia Agriculture Structural Adjustment Project activities was to design and install an automated accounting and management information system for the St. Lucia Banana Growers' Association. However, the contractor drastically underestimated the level of effort required for this activity, and Association management were not sufficiently involved in the system's development. The system was not completed, and the parts that were completed were not working satisfactorily. Thus, the Association got less than AID paid for and, as a result, lacked an adequate accounting and information management system.

Recommendation No. 2

We recommend that, as a prerequisite to reprogramming project funds to complete the St. Lucia Banana Growers' Association automated accounting system, RDO/C obtain:

a) evidence that the Association has established a committee of top-level management to prioritize its automated data processing needs, to determine what is required to meet those needs, and to monitor any further systems development work; and

b) an appropriate cash contribution from the Association to ensure its commitment to completing the system.

Discussion

On December 13, 1983, based on a feasibility study performed by a U.S. accounting firm, the Government of St. Lucia signed a fixed price contract with the same firm to provide the hardware and software for an automated accounting and management information system for the St. Lucia Banana Growers' Association. The fixed price was roughly $99,000, to be paid by an AID direct letter of commitment upon completion of the system. Among other things, the contractor was to:

-- analyze the Association's current and future information processing needs;

-- design and install on a pilot basis a grower payment sub-system to familiarize users with the system, evaluate employee apptitudes for working with the system, and verify the Association's data processing requirements; and

-- complete installation of an accounting and management information system based on the findings of the pilot activities.

However, when we completed our review, the Association had only a partially completed system which was not functioning properly. The grower payment and general ledger sub-systems were the only ones in use.

The grower payments sub-system was completed, but had caused numerous errors in calculating grower payments, did not include adequate controls, operated slowly, and had not been implemented for all of the grower areas. According to the buying/boxing operations supervisor, a random check of one week's payments revealed about $740 in overpayments. He also showed us that his office had found eighty errors in one week and seventy in another. According to the Association's statistical analyst, some overpayments occurred when growers claimed more incentive payments than they were entitled to. (Growers received incentives for field packing their bananas, high quality fruit, etc. However, not all growers were eligible to receive all the incentives.) The master grower file showed which incentives a particular grower was entitled to, but the grower payments sub-system ignored this information. In other cases, the system printed the amount due for incentives incorrectly, and in one case it printed an extra digit in the payment amount, thus showing a tenfold increase in the payment amount.

Association officials told us that the grower payments sub-system was being used for seven of ten grower areas. It was to be implemented in the other areas when grower information for these areas had been entered into the master grower file. The data entry had been delayed by the lack of accurate information in the Association's manual records.

According to Association officials, the system was being used to make 3,500 to 5,000 grower payments each week. However, it took four hours to process and print only 500 payment slips. Since the payment processing had to be completed between Friday morning and Tuesday morning, computer center personnel had to work overtime to meet deadlines, just as they were doing when they used a manual system. One would expect this problem to be compounded when payments for the three remaining grower areas are added to the workload. (One solution might be to delay payments by one week.)

Association officials said that the general ledger sub-system worked well until they attempted to make the adjusting entries. The system would not accept these entries, apparently because of a lack of capacity.

Several other software systems called for in the contract had not been installed, according to the Association's Financial Analyst. These included inventory, accounts receivable, and accounts payable programs.

Thus, it was apparent that the Association did not receive what AID paid for, and that the Association did not have an adequate accounting and management information system.

The systems development effort was not successful for three major reasons. First, several officials connected with the project believed, and we agree, that the system was imposed on the Association by outsiders. The Association's chief counterpart working with the contractor was a consultant paid by the British Government, who had since left the Association. Responsible Association managers we interviewed were aware that the installed system was not working properly but were unable to discuss the reasons why it was not working properly. For example, they could not tell us whether or not the contractor had fulfilled the terms of its contract, and referred us to an official in the Ministry of Finance and Planning for an answer to this question. It was apparent that Association managers had not been sufficiently involved in the development of the system.

Second, the contractor substantially underestimated the level of effort required to develop this system. According to one of the accounting firm's managers, the firm incurred substantial costs over and above the $98,933 they were paid. The firm subsequently submitted a proposal to make the system fully operational for an additional $224,910.

Finally, at the time the contract was signed, the system was considered a prerequisite to implementation of another project activity (the system was to track repayment of loans made to banana growers to purchase agricultural inputs). Thus, the systems development effort was considered a crash project, and the original contract only allowed about three months to complete the system. This, in our opinion, made careful management of the development effort more difficult. Subsequently, the input supply scheme was dropped, changing the requirements for the system.

Initially, we questioned why the contractor had been paid when it had not delivered all of the services called for in the contract. The Deputy Director for Planning, Ministry of Finance and Planning, told us that he approved payment to the contractor because he realized that the Association had not met its responsibilities in the systems development process. The AID Project Officer told us that he approved payment for that reason, and because he believed that the contractor had incurred a substantial loss in an effort to carry out the tasks agreed to. We are not questioning AID's decision because of our observation that the Association's management lacked the commitment and involvement essential to a successful systems development effort.

The situation we found in the Banana Growers' Association illustrates the problems that occur when management is not involved in developing automatic data processing systems. We believe that, if additional resources were provided to complete the system, they would be wasted unless the Association's management demonstrates interest in and commitment to the project. Also, since the resources provided in the previous contract were clearly inadequate, any future proposal should be scrutinized to ensure that the proposed cost is realistic.

Management Comments

RDO/C agreed that the Banana Growers' Association automated information system was not totally satisfactory, and that additional effort would be required. It concurred in the recommendation.

3. Loan Program for St. Vincent Farmers Lacked Adequate Controls

The subloan agreement between the CDB and the St. Vincent Development Corporation provides that the Corporation must carry out the project in accordance with sound technical, financial, and managerial standards. However, the St. Vincent loan program for sugar farmers lacked appropriate controls in the areas of loan approval, collateral, loan repayment, and record keeping. Development Corporation officials realized that better controls were needed, but, in our opinion, had not been firm enough in insisting that recommended procedures be followed. According to Corporation officials, the absence of appropriate controls has led to losses, and a high proportion of the loans are in arrears.

Recommendation No. 3

We recommend that RDO/C:

a) obtain evidence that the Caribbean Development Bank has halted the loan program until the St. Vincent Development Corporation and St. Vincent Sugar Industry, Ltd. have agreed to implement adequate procedures for approving loans, obtaining collateral, establishing and using repayment schedules, improving collection efforts, and keeping and using records; and

b) perform, or cause to be performed, supervisory visits to verify that internal control procedures are being followed, when loan activity resumes.

Discussion

One of the subloans made with funds from the Regional Agribusiness Development Project was to the St. Vincent Development Corporation for production loans for sugar cane farmers. The agreement between the CDB and the Development Corporation, signed in October 1980, made $370,400 available for this purpose. On December 31, 1984, $182,061 was outstanding, according to the Development Corporation's records. The loans were actually disbursed and collected by St. Vincent Sugar Industries, Ltd., which received one-half of one percent of the principal amount as payment for these services.

The subloan agreement between the CDB and the St. Vincent Development Corporation requires the Development Corporation to carry out the project with due diligence and efficiency, in accordance with sound technical, financial and managerial standards. In many areas, however, the program was not managed in a manner consistent with good business practice, and the program's resources were not adequatel safeguarded against loss. The most serious problems are summarized below.

St. Vincent Sugar Industries, Ltd. made disbursements to farmers and notified the Development Corporation much later. No collateral was required from the farmers (other than the sugar crop itself), regardless of the loan amount. According to a CDB Farm Improvement Officer assigned to the Development Corporation, the sugar company often made disbursements in excess of what farmers could repay from their sales of sugar cane. Therefore, the Development Corporation reimbursed the sugar company for only a portion of its disbursements to farmers, and the sugar company had to cover the remainder with its own funds. When the sugar company received payments from farmers, it recovered its own funds first and applied the rest to the Development Corporation's loans.

When the sugar company notified the Corporation that it had made loans, the Farm Improvement Officer prepared a repayment schedule, showing how much the sugar company should deduct from its payments to farmers for sugar cane. However, the sugar company frequently ignored the repayment schedule and deducted too much or too little. Also, long periods of time passed between the time the sugar company made the deduction and the time it reimbursed the Development Corporation. The Corporation continued to charge the farmer interest until it received the payment. Because the sugar company frequently collected too much from the farmers, many farmers had credit balances with the Development Corporation which had not been refunded.

The Development Corporation did not routinely monitor the amount of principal and interest in arrears. The information it had on disbursements and repayments was seriously out of date, and it lacked information needed to accurately compute the amount in arrears. For loans made before 1984, its records did not differentiate between crop establishment loans, which should be repaid in four years, and crop maintenance loans, which should be repaid in one year.

According to Development Corporation officials, these internal control weaknesses had caused loan write-offs that could have been avoided. In one case they cited, a farmer obtained a loan for about $7,400 and then sold his land and refused to repay the loan. This could have been avoided if the loan had been properly secured. We also noted that a high proportion of the loans were in arrears, according to the Development Corporation's records. We reviewed eight farmers' loan cards and found that seven had principal and/or interest in arrears, while the eighth showed a credit balance.

Development Corporation officials recognized that the program's internal controls should be strengthened. They maintained that they had tried to make improvements, but said that the sugar company had not cooperated. In our opinion, the Corporation has not been active enough in requiring that needed improvements be made.

Internal control weaknesses existed in practically every part of the loan program. These weaknesses were serious enough that we believe no further loans should be made until corrective actions have been taken. It is also apparent that the Development Corporation will require close supervision from the CDB and RDO/C when loan activity resumes.

Management Comments

RDO/C stated that it would obtain evidence that the CDB had stopped disbursements to the St. Vincent Development Corporation, and concurred in the recommendation.

OIG Comments

The intent of the recommendation is that the St. Vincent Development Corporation stop making loans to farmers until improved internal controls are in place. This will reduce the possibility of decapitalization of the fund through defaults.

4. The Caribbean Agricultural Research and Development Institute Needed To Strengthen Accounting for AID Funds

One of the accomplishments of the Farming Systems Research and Development Project was the establishment of a project accounting system which, in general, provided for adequate control over project funds. However, in several instances we found that supporting documentation required by the accounting manual was not available, apparently because the accounts clerks did not understand the importance of strict adherence to the system. Thus, it was impossible to determine whether expenditures of AID funds were project-related. Also, the accounting system treated all payments from project bank accounts as expenditures, when in fact many of the payments were travel advances, and should have been accounted for as such; and in St. Vincent, petty cash counts required by the accounting manual had not been conducted

Recommendation No. 4

We recommend that RDO/C:

a) obtain evidence that the Institute has revised its accounting manual to provide for appropriate accounting for advances and instructed country team leaders in writing to conduct petty cash counts as required by the accounting manual;

b) conduct, or cause to be conducted, periodic payment verifications of expenditures of AID funds; and

c) obtain supporting documentation for $2,659 in unsupported costs or make recoveries as appropriate.

Discussion

Sections A-06.A.3.(c) and B.1.(c) (iii) of the Caribbean Agricultural Research and Development Institute's accounting manual require that supporting documents for payments be kept. In St. Vincent and Antigua, the supporting documents for expenditures of $2,659 in AID funds were not available, or were not adequate to demonstrate that the expenditures were project-related. The accounts clerks understood what documentation was required, but apparently did not understand the importance of rigidly adhering to established procedures for every expenditure.

In St. Vincent, petty cash counts required by Section A-10.A.5 of the accounting manual had not been made. According to the Institute's administrative assistant, the various country team leaders were aware that they were required to conduct cash counts, but ignored the requirement. She said that the only time cash counts were done was when she conducted them during her visits to the islands.

Section G-01 of the accounting manual, which gives instructions for reporting project payments, does not differentiate between advances and expenditures. As a result, travel advances were reported to AID as expenditures when they were made, rather than when they were liquidated. This did not comply with generally accepted accounting principles. As a result of these problems, it was apparent that adequate control over AID funds was not always maintained.

According to RDO/C's Agriculture and Rural Development Officer, the accounting system established for this project represented a substantial improvement over the previous system, and based on our review, we concluded that the new system was basically sound. However, the accounting manual should be revised so that advances are reported properly, and actions should be taken to improve compliance with established procedures.

Management Comments

RDO/C concurred in recommendation number 4, and stated that it planned to use project development and support funds to contract services to implement this recommendation. It emphasized, for the record, that the Institute had established unusually good control over AID project funds, and that this control was being institutionalized in other parts of the organization that used funds from non-AID sources.

5. Advance Management Practices Did Not Comply With AID Requirements

AID Handbook 19, Appendix 1B, Section B3.d.(2) states that advances may be provided for thirty days' cash requirements unless the Bureau Assistant Administrator, Mission Director, or Office Head determine in writing that implementation would be seriously interrupted or impeded by applying the thirty day rule, in which case advances may extend for as long as ninety days. While RDO/C used ninety days' cash requirements as its criteria for making advances, no written determination waiving the thirty-day rule existed. Depending on the method used to calculate excess advances, RDO/C had between $262,000 and $2.1 million in advances which exceeded ninety days' cash requirements, as of March 31, 1985. As a result, the U.S. Government was incurring additional interest expense. The Controller told us that he was aware of this problem but had not taken corrective action because of other demands on his staff's time. Also, RDO/C's reports on outstanding advances were prepared in a way that overstated the cash requirements of three projects.

Recommendation No. 5

We recommend that RDO/C:

a) prepare a written determination that applying the thirty-day rule to its regional projects would seriously interrupt or impede implementation, and prepare written determinations for its bilateral projects on a case-by-case basis;

b) reduce the amount of outstanding advances to no more than ninety days' requirements by September 30, 1985; and

c) correct the errors in the outstanding advance report which overstate cash requirements.

Discussion

AID Handbook 19, Appendix 1B, Section B3.d.(2) states that advances may be assumed to be cash requirements for as much as thirty days from the date the recipient receives the advance until it is expended. The period of an advance may extend for as long as ninety days when the Bureau Assistant Administrator, Mission Director, or Office head has determined in writing that implementation would be seriously interrupted or impeded by applying the thirty-day rule.

RDO/C originally reported that, as of March 31, 1985, $1.9 million of its $5.0 million in outstanding advances exceeded projects' ninety days' cash requirements. We reviewed this report and found that three projects' cash requirements had been mistakenly overstated, so the report should have shown $2.1 million in excess advances.

After we completed our field work, RDO/C revised its report, concluding that only $262 thousand of $5.9 million in outstanding advances exceeded projects' cash requirements. The amount of excess advances was reduced because the Mission used a different methodology to calculate cash requirements. In the original report, the average monthly expenditure level was calculated based on reimbursement vouchers submitted over the previous six months, and this monthly expenditure level was multiplied by three to determine projects' ninety days' cash requirements. In the revised report, projects' cash requirements were based on actual and/or accrued expenditures over the previous three months. That is, if no vouchers were received for the period from January through March, cash requirements for the next ninety days were assumed to equal accrued expenditures as of March 31, 1985. On the other hand, if vouchers were received for January and February and expenditures were accrued for the month of March, the two months' actual expenditures plus the one month's accrued expenditures became the basis for determining ninety days' cash requirements. The total amount of outstanding advances increased in the revised report because two advances for a total of $960,000 were not included in the original report.

We can see advantages and disadvantages in the methodology used in the revised report. Using accrued expenditures may make the calculation of cash requirements more sensitive to changing expenditure levels during the life of a project. Yet, the methodology used in the original report might be considered more defensible since it is based solely on actual expenditure history, rather than on estimates. The question of which methodology is more accurate can only be resolved by comparing actual outlays with projections established using each method. We plan to make such a comparison during the process of closing recommendation number 5.

Excess advances increased the U.S. Treasury's cost of borrowing funds to support Government programs, although the exact cost cannot be determined until actual outlays are compared with advances. Using the U.S. Treasury's value of funds for the period from January 1 through March 31, 1985 -- 9 percent -- the annual cost of $262,000 in excess advances would be about $24,000. The annual cost of $2.1 million in excess advances would be $189,000.

There were two causes why advances exceeded ninety days' requirements for funds. In some cases, advance recipients had not submitted documentation to liquidate the advances in a timely manner. In other cases, standing advances (also called revolving advances) were made based on estimated cash requirements for ninety days. Later experience showed that the advances exceeded actual requirements, but reimbursement vouchers were not applied to the advances to reduce them to a more appropriate level. The Controller stated that he was aware of these problems but had not corrected them because of other demands on his staff's time.

Our review also disclosed two related, but comparatively minor problems. While RDO/C was using ninety days' cash requirements as its criteria for establishing advance levels, responsible RDO/C officials were not aware of any written determinations that applying the thirty-day rule would seriously interrupt or impede project implementation. We concluded that no written determinations had been made, and that therefore, no authority to make advances for more than thirty days' cash requirements existed.

Also, we found that RDO/C reports on outstanding advances overstated three projects' cash requirements. To compute projects' cash requirements, RDO/C's financial analyst determined the average reimbursement voucher amount over the last six months and multiplied the result by three to obtain the projects' ninety days' cash requirements. This procedure was appropriate for projects whose vouchers included only one month's expenditures, but because of an oversight, the same method was used to compute the cash requirements for three projects whose vouchers included three to four months' expenditures.

In the report for the quarter ending March 31, 1984, this had the effect of overstating three projects' cash requirements by $135,100. However, because of an offsetting error in calculating cash requirements for a fourth project (one voucher showing expenditures of $148,200 was excluded from the analysis), the net effect was to overstate the cash requirements for all RDO/C's projects by $112,900.

A substantial amount of RDO/C's outstanding advances were in excess of projects' ninety days' requirements for funds. The exact amount cannot be determined until actual outlays are compared with advances over a period of time. Also, since apparently no written determinations had been made that applying the thirty-day rule to RDO/C's projects would seriously interrupt or impede project implementation, no authority to issue advances for more than thirty days' requirements existed. Finally, the report on outstanding advances overstated three projects' requirements for funds. Changes were needed to bring advance management practices into compliance with AID requirements, and to improve the accuracy of reports prepared on outstanding advances.

Management Comments

RDO/C submitted a revised outstanding advance report which showed a much smaller amount of excess advances than its original report. It recognized, though, that certain advances made prior to January 1984 were in excess of projects' cash requirements, and that their liquidation would require vigorous action over the following months.

RDO/C also stated that the Director had determined in writing that applying the thirty day rule would seriously interrupt or impede project implementation, and that henceforth this determination would be made on a case-by-case basis. Finally, the Mission noted that revision of the outstanding advance report satisfied part of recommendation number 5.

OIG Comments

During the process of closing this recommendation we will compare actual outlays with advances to determine whether advances have been reduced to no more than ninety days' cash requirements. We will review the written determination or determinations made by the Mission Director and judge whether these meet the intent of our recommendation that determinations for bilateral projects be prepared on a case-by-case basis.

RDO/C's revision of the outstanding advance report meets the intent of our recommendation that errors in the report be corrected.

6. Counterpart Contributions for Certain Projects Were Not Adequately Monitored

Project Officers must routinely monitor counterpart contributions to fulfill requirements established in AID Handbook 3. In some cases, RDO/C Project Officers were not aware of what counterpart contributions had been made because this type of monitoring was a low priority. As a result, they did not know whether or not the project agreements had been complied with.

Recommendation No. 6

We recommend that RDO/C obtain from its borrowers/grantees periodic reports on their contributions to projects, and that Project Officers review these reports for reasonableness and determine whether or not counterpart contribution requirements are being met.

Discussion

AID Handbook 3, Chapter 11, Section 11.A states that:

> Monitoring requires the timely gathering of information regarding inputs, outputs and actions that are critical to project success and the comparison of such information with plans and schedules.... Monitoring is of great importance because AID must assure itself that U.S. funds are being disbursed in accordance with statutory requirements and that goods and services financed are utilized effectively to produce intended benefits. Monitoring is also concerned with the project as a whole....

Also, Chapter 11, Appendix 11.E.6 specifically charges Project Officers with assuring that borrower/grantee contributions are budgeted for and funds released in timely and sufficient amounts.

For six RDO/C projects, Project Officers did not know whether or not agreed contributions totalling $4.4 million had been made, because they perceived that monitoring counterpart contributions was a low priority. As a result, they were not in a position to say whether or not the project agreements had been complied with. In some cases, borrowers/grantees were not keeping track of their contributions either.

When counterpart contributions are not routinely monitored, Project Officers cannot fulfill their responsibilities to ensure that project agreement requirements are met, to monitor inputs and outputs for the project as a whole, and to take corrective action when necessary. We recognize that requiring periodic reports on counterpart contributions imposes an additional burden on recipient organizations, but we believe that the additional burden will be more than offset by improved project management and improved internal controls.

Management Comments

RDO/C was concerned that implementing this recommendation would require an unreasonable level of effort given its current resources. The Mission proposed rewording the recommendation as follows:

> As part of the semi-annual project reporting system, each project officer should indicate [the] amount of counterpart contributions provided to the project, based to the maximum extent practicable on borrower/grantee reports. Instances of potential disruption of the project caused by lack of counterpart support should be specifically underscored.

OIG Comments

We agree that it would be useful to include information on counterpart contributions in the semi-annual reports. We believe, though, that this information should be based on periodic borrower/grantee reports, because they need to keep track of their contributions in order to properly manage projects. If for any reason, borrower/grantees cannot report on their contributions to projects, this would point out an internal control problem requiring corrective action by RDO/C.

B. Compliance and Internal Control

1. Compliance

The audit disclosed five compliance exceptions:

-- Annual evaluations required by the Regional Agribusiness Development project agreement were not conducted. Had they been conducted, we consider it likely that RDO/C would have been made aware of the need to strengthen internal controls and to reprogram non-productive resources (see Findings 1 and 3).

-- The St. Vincent Development Corporation was not administering the loan program for sugar farmers with due diligence, in accordance with sound technical, financial, and managerial standards, as required by its agreement with the Caribbean Development Bank, and the Bank's agreement with AID. As a result, the loan program's resources were not adequately safeguarded against loss (see Finding 3).

-- In some cases, practices in the Caribbean Agricultural Research and Development Institute did not comply with procedures established in the Institute's accounting manual, and the manual itself needed to be modified to comply with accepted accounting practice for recording advances (see Finding 4).

-- RDO/C's advance management practices did not comply with requirements established in AID Handbook 19. This resulted in additional interest cost to the Government for borrowing money to fund AID programs (see Finding 5).

-- Counterpart contributions for some projects were not monitored in accordance with standards established in AID Handbook 3, so Project Officers did not know whether or not agreed contributions had actually been made (see Finding 6).

Nothing came to our attention that would indicate that untested items were not in compliance with applicable laws and regulations.

2. Internal Control

We noted five major instances of internal control weaknesses:

-- Required annual evaluations of the Regional Agribusines Development project, which could have alerted RDO/C management that internal control improvements were needed, had not been conducted (see Finding 1).

-- The St. Vincent sugar farmer loan program lacked adequate controls for loan approval, repayment, and record keeping. This had led to losses, and a high proportion of the loans were in arrears (see Finding 3).

-- While the Caribbean Agricultural Research and Development Institute's accounting system was basically sound, in some cases records were not adequate to show that expenditures of AID funds were project-related (see Finding 4).

- Because RDO/C reports on outstanding advances overstated three projects' cash requirements, the reports' usefulness in preventing excessive advances was decreased (see Finding 5).

- In six cases, RDO/C Project Officers did not know whether counterpart contributions specified in project agreements had actually been made (see Finding 6).

REVIEW OF SELECTED
AGRICULTURE SECTOR PROJECTS
REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

PART III - APPENDICES

APPENDIX 1

MISSION COMMENTS

The following paragraphs quote RDO/C's comments on the draft report, provided by cable on July 3, 15, and 26, 1985.

Bridgetown 05951

Editorial corrections and Suggestions

Under part I.A., first paragraph on page one: the phrase "five island nations" should be changed to read "six island nations". Following this phrase is a list of the names of the nations, and the nation of "St. Kitts/Nevis" should be added to that list.

Under part II.A.2, on page 20: three bulletized statements are made that describe a certain contractor's responsibilities. We suggest that in the second bulletized item, following the word "install," the following phrase be inserted: "on a pilot basis".

Comments on Recommendations

Recommendation No. 1: RDO/C concurs with this recommendation and plans to complete project evaluations prior to the end of CY 85; in addition RDO/C will move immediately to have the CDB request the NCDB of Dominica to repay the unused portion of the sub-loan described in the subject report and authorize the NCDB to appropriately dispose of warehoused inputs.

Recommendation No. 2: As discussed with audit team, RDO/C is well aware that St. Lucia Banana Growers' Association automated data system is not totally satisfactory and additional effort will be required. RDO/C concurs in the recommendation.

Recommendation No. 3: RDO/C believes the CDB has already halted disbursements of funds to the St. Vincent Development Corporation and St. Vincent Sugar Industry pending the establishment of more adequate subloan administrative procedures. RDO/C will move immediately to obtain evidence to this effect. RDO/C concurs in this set of recommendations.

Recommendation No. 4: RDO/C concurs in this set of recommendations and plans to utilize PD and S funds to contract services to implement all aspects of these recommendations. RDO/C would like to emphasize, for the record, that CARDI has established unusually good control over AID project funds and this control is being institutionalized in other CARDI activities which utilize funds from non-AID sources.

Recommendation No. 5: (See separate response below -- Bridgetown 05661)

Recommendation No. 6: RDO/C does not accept recommendation as presented. We are very concerned that implementation of this recommendation as currently phrased would require an unreasonable level of effort given our current resources. RDO/C requests alternative phrasing of recommendation as follows: "As part of the semi-annual project reporting system, each project officer should indicate amount of counterpart contributions provided to the project, based to the maximum extent practicable on borrower/grantee reports. Instances of potential disruption of the project caused by lack of counterpart support should be specifically underscored." If RDO/C alternative phrasing of recommendation is not acceptable, then we request additional consultation.

Bridgetown 05661

As discussed during the exit conference the Controller has analyzed in depth RDO/C advance practices. The outstanding advance report for the period ended 3/31/85 has been revised incorporating accruals along with prior expenditure experience levels.

This method of projecting advance requirements yields a much different picture than the internal report of advances reviewed by the auditors which gave rise to section of the draft audit report entitled "Advance Management Practices Did Not Comply With AID Requirements". Your office will be provided a copy of the revised advance report for the period ended 3/31/85. As we are at the end of the third quarter of FY 1985 the controller was able to confirm the validity of projecting ninety day advance requirements based on actual expenditures and accrual data.

The report of advances will be further refined for the period ended 06/30/85 reflecting the date of advance as the date the recipient received the advance rather than the date the advance was scheduled for payment/recorded.

The amount of $1.967 million (adjusted by auditor to $2.1 million) reflected on the initial report was erroneous. The revised report reflects net advances over 90 day requirement as approximately $260 thousand.

There remain certain advances over the ninety day requirement, made prior to 1/1/84, which will require vigorous efforts to liquidate over the ensuing months. The Controller is optimistic that recommendation five b can be implemented no later than 9/30/85.

Concerning recommendation five a, the Director has determined in writing that applying the thirty-day rule would seirously interrupt or impede project implementation. Henceforth this determination will be made on a case-by-case basis. Revision of the advance report for the period ended 3/31/85 satisfies recommendation five c.

Bridgetown 06294

[To clarify how the report on outstanding advances was revised,] be advised that accrued expenditures (goods and services received for which payment had not been made) as of 3/31/85 were determined for each project by the B and A officer in conjunction with project officers. Thus the actual expenditure plus the accrual as of 3/31/85 becomes the accrued expenditures for any given project as of this date. In determining accruals consideration is given to any increase/decrease in monetary implementation of a project. Previous to revision of the 3/31/85 advance report projected ninety day requirements were based on actual expenditure data. Thus if vouchers were not submitted for a period of say three to six months prior to the advance report date of 3/31/85 the most recent vouchers on hand for a three months period were averaged to determine the required ninety day advance.

The revised advance report of 3/31/85 projected the ninety day requirement based on the actual or accrued expenditures for the three month period of January through March. For example, if vouchers were not received for the period January through March, the ninety day advance requirement was considered to be the accrual amount as of 3/31/85. On the other hand, if vouchers were received for January and February and expenditures were accrued for the month of March, the two months actual plus the accrual became the basis for determining the ninety day advance.

As the revised report for the period ended 3/31/85 was prepared at the end of the third quarter and by this time (6/30/85) vouchers were on hand in many cases for April and May the controller was able to confirm the validity of projecting ninety day advance requirements based on actual expenditures and accrual data. That is, the accruals were relatively accurate as of 3/31/85.

LIST OF RECOMMENDATIONS

PAGE

Recommendation No. 1 — 5

We recommend that RDO/C:

a. in cooperation with the Caribbean Development Bank, perform the project evaluations required by the Regional Agribusiness Development loan agreement; and

b. obtain evidence that the Caribbean Development Bank has (i) requested the National Commercial and Development Bank in Dominica to immediately repay that portion of the subloan which is not being used, and (ii) has authorized the Bank to appropiately dispose of unused agricultural inputs.

Recommendation No. 2 — 11

We recommend that, as a prerequisite to reprogramming project funds to complete the St. Lucia Banana Growers' Association automated accounting system, RDO/C obtain:

a. evidence that the Association has established a committee of top-level management to prioritize its automated data processing needs, to determine what is required to meet those needs, and to monitor any further systems development work; and

b. an appropriate cash contribution from the Association to ensure its commitment to completing the system.

Recommendation No. 3 — 14

We recommend that RDO/C:

a. obtain evidence that the Caribbean Development Bank has halted the loan program until the St. Vincent Development Corporation and St. Vincent Sugar Industry, Ltd. have agreed to implement adequate procedures for approving loans, obtaining collateral, establishing and using repayment schedules, improving collection efforts, and keeping and using records; and

b. perform, or cause to be performed, supervisory visits to verify that internal control procedures are being followed, when loan activity resumes.

Recommendation No. 4 17

We recommend that RDO/C:

a. obtain evidence that the Institute has revised its accounting manual to provide for appropriate accounting for advances and instructed country team leaders in writing to conduct petty cash counts as required by the accounting manual;

b. conduct, or cause to be conducted, periodic payment verifications of expenditures of AID funds; and

c. obtain supporting documentation for $2,659 in unsupported costs or make recoveries as appropriate.

Recommendation No. 5 19

We recommend that RDO/C:

a. prepare a written determination that applying the thrity-day rule to its regional projects would seriously interrupt or impede implementation, and prepare written determinations for its bilaterial projects on a case-by-case basis;

b. reduce the amount of outstanding advances to no more than ninety days' requirements by September 30, 1985; and

c. correct the errors in the outstanding advance report which overstate cash requirements.

Recommendation No. 6 22

We recommend that RDO/C obtain from its borrowers/grantess periodic reports on their contributions to projects, and that Project Officers review these reports for reasonableness and determine whether or not counterpart contribution requirements are being met.

APPENDIX 3

REPORT DISTRIBUTION

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