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EXCESS PROPERTY BOATS
PROVIDED TO THE
PAN AMERICAN DEVELOPMENT FOUNDATION

AUDIT REPORT No. O-917-81-98

June 30, 1981

AID has provided several boats to the Pan American Development Foundation under the excess property program. We found that:

- The Excess Property Division did not follow existing procedures in providing the boats;
- AID Missions were not adequately informed of the boats' transfers;
- Certifications that the boats were needed, suitable, and can be maintained were not properly made; and
- Monitoring responsibilities need to be clarified.

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EXECUTIVE SUMMARY

Introduction and Scope

AID has provided several boats to the Pan American Development Foundation, a registered private voluntary organization, for use in its Tools for Training program in several Latin American and Caribbean countries. The Bureau for Program and Management Services, Office of Contract Management (SER/CM) asked us to ascertain the use of the boats.

A limited review was conducted of the procedures for transferring the boats and policies under which the program is conducted. We did not do a detailed audit of PADF, nor did we do any field work in the countries to which the boats were sent. We did obtain information by cable from the four Missions where boats had been provided at the time of our review.

Problems Identified in the Boat Program

The procedures used to transfer boats to PADF and the using institutions did not comply with regulations for the use of excess property. Boats were provided to recipients in countries with AID Missions, but the Missions were not adequately informed of the transfer of this excess property. The Bureau for Latin America and the Caribbean (LAC) was also not informed of the transfers; thus, the Missions could not carry out their responsibilities relative to requests for and receipt of excess property for use in their countries.

During our review, the Office of Contract Management, Excess Property Division (CM/EPD), revised their procedure to assure notification of Missions. However, in our opinion the new procedure does not comply with provisions of the Foreign Assistance Act which requires the Agency to certify that the property is needed, suitable, and can be maintained by the recipient. Such certification should be made by the concerned AID Mission. There also remains some ambiguity as to monitorship responsibilities for the boats and establishment of the required period of accountability. The Agency needs to clarify the responsibilities of PADF and the Missions.

One Mission raised the possibility that a boat was being used inappropriately, but this is denied by PADF. This situation needs to be clarified.

We did not examine in detail the method PADF used to arrive at indirect charges they made to the recipients of the excess property boats. Accordingly, we plan to conduct a detailed contract audit of PADF and will examine the costs associated with the transfers in detail at that time.

The following recommendations are made based on the findings in the report:

Recommendation No. 1

The Office of Contract Management should assure that the procedures used to transfer excess property comply with the requirements of Section 607 (c) of the Foreign Assistance Act.

Recommendation No. 2

The Office of Contract Management should clarify monitoring responsibilities and instruct the Missions concerned that they will be required to establish the period of accountability and fulfill their monitorship responsibilities.

Recommendation No. 3

The Office of Contract Management should request USAID Nicaragua to assure that the vessel Miss Molly B is being used only for authorized purposes.

Management Comments and IG's Response

SER/CM, in responding to a draft of this report, feels that we exceeded the scope of their request to investigate the end use of these boats. Their response states in part: "Inasmuch as the IG was unable to make the contemplated on-site checks, to our knowledge there has been no thorough end-use audit." We agree there was no end-use audit and explained the reasons why to SER/CM prior to conducting the review. We did not conduct a field review because of a shortage of travel funds. Cables to the Missions involved provided adequate information to demonstrate problems at far less cost.

What we find disturbing is the failure of CM/EPD to adequately apprise the Missions who have the express responsibility for monitoring the boats that they were provided for development activities in their respective countries. Existing regulations require Mission concurrence and certifications as specified in Section 607 (c) of the Foreign Assistance Act (FAA). CM believes certification by PADF is adequate. We do not agree. Involvement of the responsible Mission is a sound program management requirement.

BACKGROUND

Introduction

The Bureau for Program and Management Services, Office of Contract Management (SER/CM) in February 1981, requested AID's Inspector General (IG) to conduct an audit as to the current use of four boats supplied by CM's Excess Property Division (EPD) to the Pan American Development Foundation (PADF). The PADF received the boats for use in its fishery training programs in the countries of Jamaica, Nicaragua, Ecuador, and Costa Rica. SER/CM requested the IG to ascertain the present use of the boats contending absence of a specific AID/W monitoring entity, and the sensitivity and possible misuse of these boats. There had been no prior audits of this activity.

The PADF is a registered voluntary agency whose purpose is to help low-income people in Latin America and the Caribbean to participate in development. PADF engages local business and civic leaders in self-help development activities of three types: small loans, tools for training, and health services. The boats have been a part of the tools for training program under which vocational training equipment and technical teaching materials are provided to schools which provide basic skills needed by the local economies.

Scope

We conducted a limited review of the procedures used in transferring the boats to PADF, assessed the policies under which the program is conducted, and inquired of the four missions to which boats had been provided at the time of our field work as to the procedures used in transferring them and how they were to be used. We did no field review nor did we audit PADF.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Breakdown of System in Transferring Excess Property

The four USAID Missions in the countries that had received the boats at the time of our review stated that they were not aware of the transfers. Their responses stated in part:

- (a) "USAID/ECUADOR has been taken completely by surprise to learn that AID/W has transferred excess property to PVOs for projects in Ecuador..."

- (b) "USAID/Jamaica was very surprised to receive (Inspector General's) reftel as we were not aware of the transfer..."
- (c) (Inspector General's) "Reftel was first notification of subject transfer..." (USAID/ Nicaragua), and
- (d) "Mission... became aware of arrival prompted by receipt of (Inspector General's)reftel..." (USAID/Costa Rica).

HB 16, Chapter 6, requires that CM/EPD, "Prior to shipment, obtains from the Mission or Embassy in the country of use the two Section 607(c) certifications prescribed in 5A1a and 5A1b." That is, 5A1a, "There is a need for the excess property in the quantity requested and such property is suitable for the purpose requested," and, 5A1b, "The status and responsibility of the end-user justifies the requested shipment or transfer and the end-user has the ability effectively to recondition when necessary, use, and maintain such property."

CM/EPD did not obtain these certifications from the Missions in the countries of use. CM/EPD notified the four Missions involved by memorandum of 3/2/81 regarding the boat transfers, prompted by a visit from the auditors to New Cumberland in late February. However, these memoranda simply identified the boats, PADF, and the end-user and a notation that this documentation was being provided in compliance with HB 16, Chapter 5, paragraph 5D. Paragraph 5D only concerns "Title" to the property; in our view, it does not satisfy the 607 (c) certifications.

During the course of our work, CM/EPD instituted a new procedure in April 1981 wherein Missions will be given full particulars on firm orders for excess property from a PVO having a Transfer Agreement. If the Mission objects to the property transfer, CM/EPD must be so informed within 15 days of receipt of notice. If the Mission does not object, it is understood that they must assume responsibility for monitoring the property. This new procedure, however, appears to relieve CM/EPD from obtaining, and the USAID Missions from making, the required 607(c) certifications.

CM/EPD, in explaining the new procedure in a telegram to one of the Missions stated, "Certification as to need and ability to use and maintain was made by PADF on CM/EPD 2-way offering summary." In our opinion, however, this certification is not valid because PADF officials are not employees of the U.S. Government. HB 16, Chapter 5A1 says:

"They are to be executed by U.S. Government employees after study and inspection has been undertaken by the certifier and constitute compliance with the written determination specified in Section 607(c) of the FAA."

Section 607(c) of the FAA requires that before shipping excess property the concerned agency must make a written determination that the property is needed, suitable, and can be maintained by the recipient. AID has not made these determinations and, in our view, PADF does not have the authority to execute the required 607(c) certifications.

Recommendation No. 1

The Office of Contract Management should assure that the procedures used to transfer excess property comply with the requirements of Section 607 (c) of the Foreign Assistance Act.

Ambiguity in Monitorship Responsibility

The AID/PADF Transfer Agreement of 7/31/78, and the amendment thereto of 1/23/81, contain ambiguous conditions relating to monitorship responsibilities. For example, in the section on "Control and Disposition of Property," in part 2. of the Transfer Agreement, it says that the AID Mission establishes a period of accountability of not less than one year after arrival, during which time the item is subject to the control of the AID Mission. The amendment to the Agreement of 1/23/81 provides that:

"All boats transferred to a PADF project are under the supervision of the PADF for the period of one year in order to assure that the transferred boats are used for the purposes originally agreed to by the recipient."

CM/EPD's new procedure for monitoring excess property of 4/4/81 states:

"If Mission does not object to property transfer, it should be understood that Mission must assume responsibility for monitorship of the property."

It seems there is an overlapping or a dual responsibility with no clear-cut delineation between the Missions involved and PADF in the monitoring of these boats. PADF officials maintain that its monitoring is complementary to the USAIDs and adds assurance that the boats will be used as intended. We believe the CM/EPD should more fully define the individual roles of PADF and the USAID Missions to enable them to coordinate their monitoring efforts.

Period of Accountability

There is ambiguity as to when the period of accountability begins and what party has the authority to establish and/or implement accountability. HB 16 defines the Period of Accountability as:

"A period of (a) not less than 1 year after the date of arrival at the recipient's port of entry of property that does not require reconditioning or (b) not less than 1 year after the date of completion of reconditioning of property that requires reconditioning, during which the item is subject to the control of the Mission or the Embassy."

Possession of the first four boats by PADF and the boats' arrival in the countries of use is shown below:

<u>Vessel</u>	<u>Date to PADF</u>	<u>Date Arrived and Country</u>
Gabriela	1/28/80	3/80 - Jamaica
Morningstar	3/11/80	11/80 - Ecuador
Searcher	4/22/80	9/80 - Costa Rica
Miss Molly B	7/8/80	2/81 - Nicaragua

The agreements signed between PADF and the end-users and other correspondence state, "(the end-user) agrees to keep possession of the vessel for one year...", or, "PADF has provided excess property in the form of a fishing vessel for use...for a period of accountability of one year under the PADF." It appears PADF has set the accountability period with the end-user, which should be set by the USAID Missions, but it cannot be determined from these documents when the one year accountability starts.

In answer to our query, PADF was of the opinion that the one-year period of accountability began from the date the end-user signed its agreement with PADF. But it was pointed out that these agreements were signed after PADF took possession, and prior to the transfer of the boats to the countries of use. Also, CM/EPD in answer to a Mission's query, said that the "PADF (is) accountable during the period of accountability (not the end-user) as established by USAID, but not less than one year after date of arrival of property at port of entry."

The period of accountability still remains to be properly established and, in accordance with HB 16, it should be at least one year from the date of arrival in the country of use as established by the USAID Missions. Care should also be taken if reconditioning is required after arrival in country.

CM/EPD should instruct the USAID Missions concerned to establish the required period of accountability. Once the period is established, both the USAID Missions and the PADF should inform the end-users.

Present Monitorship of the Boats

None of the four USAID Missions were aware of the boat transfers to their countries. Consequently, none of the Missions had done any monitoring of the boats and it is unclear to what extent they will do so in the future.

USAID/Jamaica reports that they will carry out responsibilities required by HB 16 even though they are unable to find anything to indicate their Mission was involved or consulted in the transfer of the vessel. USAID/Nicaragua says that action is pending regarding monitoring and inspection of the boat. USAID/Ecuador was particularly disturbed that the boat was transferred without their prior knowledge and approval, and found procedures unacceptable whereby excess property can be transferred to a PVO for use in Ecuador without USAID or Latin America Bureau approvals. Furthermore, USAID/Ecuador contends that the boat transfer requires monitoring for which they do not have the staff or travel funds. The USAID Mission in Costa Rica stated that it is prepared to carry out any and all excess property monitoring functions as provided in HB 16, but emphasizes that this is impossible without early and continued involvement of the Mission in excess property transactions. Such involvement would include timely requests for the Mission's 607 (c) certification, the provision of copies of relevant transfer agreements, notification of arrival dates of excess property, etc.

Reports received by PADF from its representatives in Ecuador and Costa Rica mention that they talked to the USAIDs in these countries about the boats (Ecuador in February 1981 and Costa Rica in October 1980). PADF is also in receipt of usage reports from Jamaica and Nicaragua. Though no mention is made in these reports of visits to the USAIDs in those countries, PADF officials insisted that their representatives had discussed these boat transfers with the USAID Missions.

Based on the four usage reports received at PADF from its representatives in the field, it appears PADF is fulfilling its obligation to monitor the boats. We did not verify the accuracy of their reports.

Whether or not the USAID Missions were informed about the boats by PADF representatives, the Missions did not have prior official knowledge of

the transfers, and they are faced with an after-the-fact situation of being held responsible for monitoring the use of boats they had no control in acquiring.

We believe, CM/EPD should instruct all of the Missions concerned that they will be required to fulfill monitorship responsibilities in their respective countries to ensure that the boats are used as intended.

Recommendation No. 2

The Office of Contract Management should clarify monitoring responsibilities and instruct the Missions concerned that they will be required to establish the period of accountability and fulfill their monitorship responsibilities.

Clearance with Regional Bureau Omitted

We could find no evidence that the Bureau for Latin America and the Caribbean (LAC) was involved in the original AID/PADF Transfer Agreement or in the transfer of any of the boats, all of which went to LAC countries.

According to HB 16 procedures, when a registered voluntary agency wishes to acquire Section 608 excess property, the organization submits its request to the Office of Private and Voluntary Cooperation (PDC/PVC). Upon favorable evaluation, PDC/PVC submits the request to the Assistant Administrator for Program and Management Services (AA/SER), together with its request for a determination under Section 607(a). The procedures were properly followed up to this point.

Then: "Upon favorable evaluation by AA/SER of PDC/PVC's request, an AID/W Section 607(a) Determination is prepared by CM/EPD's WLB and cleared by PDC/PVC and the appropriate Geographic Bureau." And, "Concurrent with the Determination, an AID/W Excess Property Transfer/Trust Fund Agreement, which prescribes terms and conditions governing the transfer of the property, is prepared by CM/EPD's WLB, cleared by PDC/PVC and the appropriate Geographic Bureau...." (Underscoring supplied). We could not find that clearances by the LAC Bureau were obtained.

We are of the opinion that if the LAC Bureau had been involved at the outset as AID regulations require, and fulfilled its responsibilities, the situation regarding these boats may have been somewhat alleviated. As current procedures call for consultation with the Bureau, no recommendation is made.

Surcharges by CM/EPD

The AID/PADF Transfer Agreement, dated 7/31/81, regarding charges made for transfers of Section 608 excess property, cites a 3% surcharge of original acquisition cost to be paid to AID by recipients. HB 16 specifies that recipients are to be charged 6% of the original acquisition costs. In actual boat transfers, CM/EPD charged the 6% surcharge to PADF in all of the transactions except in the "Gabriela transfer where only a 5% surcharge was made in accordance with an earlier rate schedule.

We suggest that SER/CM determine whether the 3% surcharge in the AID/PADF Transfer Agreement, or the 6% CM/EPD charged is appropriate.

Possible Unauthorized Use of Boat

USAID/Nicaragua reported that, as of 4/13/81, the boat transferred to the National Fishing Development Institute of Nicaragua (INPESCA) is: "Presently being used as a patrol boat for search of illegal fishermen." The USAID followed up with the PADF in-country representative for clarification of the project and specific usage of the vessel. The PADF representative informed that to his knowledge, vessel was used as a training ship for shrimp fishermen, which was the intended use for the boat.

PADF Headquarters was previously in receipt of reports from Nicaragua dated 2/26 and 2/27/81, from an official of INPESCA and the OAS Director saying: "...the boat will initiate its fishermen activity in the near future," and; "...Miss Molly B is being used by INPESCA for fishing development activities..." However, from the USAID report, it would appear that the vessel was being used in support of policing activities by some unknown Nicaraguan authorities, which would be in violation of AID excess property regulations. AID HB 16, Chapter 2, notes that AID does not provide excess property for use as support of public safety activities, or by the recipient country's military services, either during or after the period of accountability.

An official of PADF in charge of its Boat Program, who recently returned from Nicaragua, told us that INPESCA personnel were simply inspecting its area's fishing ground. However, we were not told whom this official contacted, nor the extent of his probe, and a report of this trip was not documented.

In view of these conflicting usage reports, we believe that CM/EPD should request USAID/Nicaragua, in conjunction with INPESCA, to determine conclusively the propriety of the boat's use in Nicaragua.

Recommendation No. 3

The Office of Contract Management should request USAID Nicaragua to assure that the vessel Miss Molly B is being used only for authorized purposes.

Charges by PADF to End-Users

Reimbursement is being made to PADF by the end-users for PADF's expenses for the boat program. This consists of both direct and indirect charges. We did not audit PADF or verify the propriety of such charges by a voluntary agency for transferring U.S. government-provided excess property.

CM/EPD recoups charges made for reconditioning, shipping, and service charges incident to the transfer. PADF made these required payments to AID and passed on these costs to the end-user as part of their direct costs. In our opinion, PADF also charged the end-user amounts which could possibly be in excess of its actual costs as indicated in the indirect charges below:

<u>Vessel</u>	<u>PADF Charges</u>		<u>End-User</u>	<u>Paid to AID</u> ^{1/}
	<u>Direct</u>	<u>Indirect</u>	<u>Paid to PADF</u>	
Gabriela	\$34,956.98	+ \$ 5,253.84	= \$40,210.82	\$ 7,850.00
Morningstar	10,765.48	+ 11,734.52	= 22,500.00	9,800.00
Searcher	18,443.76	+ 11,556.24	= 30,000.00	13,620.00
Miss Molly B	11,718.34	+ 22,031.66	= 33,750.00	11,550.00
Miss Priss	17,970.31	+ 15,779.69	= 33,750.00	15,720.00
Gee Chee Boy II	15,677.45	+ <u>18,072.55</u>	= 33,750.00	10,363.00
			<u>\$84,428.50</u>	

1/ Included in PADF direct charges.

PADF furnished us a schedule of their direct expenses relating to the transfer of six excess property boats (including two boats transferred to Honduras during the course of our audit). As shown above, PADF costs were segregated by direct and indirect expenses. The direct expenses are broken down and identified by line item, but the "PADF Indirect Costs" are in total with no further breakdown. As clarification, PADF also provided its Boat Program Policy regarding end-user contributions. It states in part:

"It is the policy of the Boat Program to request from the recipient institution a contribution of 15% of the appraised value of the boat, at the current market, as determined by an independent certified marine surveyor. This contribution covers the PADF's administrative and logistical costs of making the boat available to the recipient institution."

It further states:

"The acquisition of the boat requires mandatory activities such as on-site inspection at port of acquisition and port of destination and followup evaluation during the period of accountability. These activities are included in PADF's indirect costs."

We do not know if charging end-users 15% of the appraised market value of the boats is proper as we do not know what indirect costs PADF incurred. Accordingly, we plan to conduct a detailed audit of PADF costs in the near future, during which time we will examine this issue in detail.

LIST OF REPORT RECIPIENTS

Deputy Administrator	3
AA/SER	2
SER/CM	5
AA/LAC	2
AA/PDC	1
AA/LEG	1
General Counsel	1
Controller, FM	1
PPC/E	1
DS/DIU/DI	4
Inspector General	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Panama	1
RIG/A/Karachi	1
RIG/A/Nairobi	1
IG/PPP	1
IG/II	1