

532-0060

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**AUDIT OF USAID/JAMAICA'S  
PROJECT PORTFOLIO PIPELINE**

**Audit Report No. 1-532-86-24  
July 11, 1986**

# AGENCY FOR INTERNATIONAL DEVELOPMENT

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July 11, 1986

MEMORANDUM FOR: D/USAID/Jamaica, William Joslin  
FROM : RIG/A/T, *Lois N. Gothard* Coinage N. Gothard, Jr.  
SUBJECT : Audit of USAID/Jamaica's Project Portfolio Pipeline,  
Report No. 1-532-86-24

This report presents the results of an audit of USAID/Jamaica's project portfolio pipeline.

## Background

One indicator of how well a Mission has been monitoring and successfully implementing its projects is the size of its project portfolio "pipeline". The "pipeline" amount represents the difference between project obligations and accrued and actual project expenditures. Although AID has not established any fixed threshold amount or ratios to measure the reasonableness of "pipelines", it has a policy not to obligate funds for project requirements which cannot be implemented within a reasonable time frame.

In conjunction with the audits of two USAID/Jamaica agriculture projects, 1/ an audit was made of USAID/Jamaica's project portfolio "pipeline". The result of the audit is the subject of this report.

## Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Tegucigalpa, Honduras, audited USAID/Jamaica's project portfolio "pipeline" to determine whether the Mission was complying with AID project obligation management requirements. The audit was made during the period January 1986 through March 1986 and covered a project portfolio "pipeline" of \$97 million as of September 30, 1985.

To accomplish the audit objective, discussions were held with responsible USAID/Jamaica officials, project portfolio summary information was evaluated, and a detailed "pipeline" aging analysis was made of one project and another less detailed "pipeline" aging analysis was made of the Mission's project portfolio as of September 30, 1985. The audit was made in accordance with generally accepted auditing standards.

1/ Audit of USAID/Jamaica Agricultural Development Foundation Project, Report No. 1-532-86-22, and audit of USAID/Jamaica Agricultural Marketing Development Project, Report No. 1-532-86-23.

## Results of Audit

USAID/Jamaica officials had not managed project funds in accordance with AID regulations. As of September 30, 1985, USAID/Jamaica had a project "pipeline" of about \$97 million which was five times greater than its current operational year budget. This situation had arisen, in part, because of the approval of several fully and/or heavily funded projects which have subsequently not required the level of spending originally planned. Excess funds had not been deobligated which has resulted in a considerable portion of USAID/Jamaica's obligations being tied to projects without a fully demonstrated need for their current funding levels. Therefore, these funds were unavailable for use on other possibly higher priority projects.

AID's policy has been to obligate funds for project requirements which could be implemented within reasonable time periods. This is consistent with AID's financial responsibility for the proper oversight and use of AID resources. Policy requires that upon determination that funds authorized and obligated for a project's life exceed the amount actually required, the excess amount be deobligated by the Mission. A long "pipeline" indicates projects may not require the amount of funds that were originally planned and obligated. Obligated funds cannot be used for anything else, unless they are reprogrammed within a project or deobligated and subsequently reobligated for another purpose. Those actions require certain time and paper-work and are therefore not always taken in a timely manner.

Until recently, USAID/Jamaica had not demonstrated proper fiscal management over its project obligations. USAID/Jamaica Officials considered the Mission's \$97 million project "pipeline" excessive and blamed its occurrence, in part, on overly funded projects which were approved in the early 1980s with the intention of getting money quickly into the Jamaican economy in support of the new Jamaican Government.

The Mission Controller's Office prepared a special project "pipeline" aging report which showed that, of the \$97 million, about \$64 million, or 66 percent, had been in the pipeline for two years or longer.

### Aging of USAID/Jamaica's Project Pipeline as of September 30, 1985

<u>Length of Time in "Pipeline"</u>	<u>Amount in "Pipeline" (\$000)</u>	<u>Percentage of Total "Pipeline"</u>
One year	\$32,961	34
Two years	32,286	33
Three years	11,069	11
Four years	17,289	18
Five years or longer	<u>3,378</u>	<u>4</u>
Total	\$96,983	100
	*****	***

As indicated by the table, USAID/Jamaica has in its portfolio projects which have not required the amount of funds obligated. According to Mission officials there were projects in the energy, health, and agriculture areas which had funds obligated in excess of their immediate needs. Until 1985, the Mission had not reprogramed or deobligated much of its excess obligations.

One of the projects contributing to the Mission's large "pipeline" was the Agricultural and Marketing Development Project. Initial project obligations of \$4.7 million in 1980 were increased to \$13.8 million in 1982. The Controller's Office prepared a special aging analysis for this project's obligations which showed that much of the obligated amount was unnecessary. For example, about \$5.0 million in project obligations had not even been earmarked for specific project purposes for at least the past two years.

USAID/Jamaica officials stated that actions had been taken to rectify its large "pipeline" situation. ~~In 1985, during the leadership of an interim Mission Director, steps were initiated to deobligate project funds.~~ The Mission's Controller said \$9.8 million was deobligated in 1985 of which \$3.0 million was taken from the Agricultural Marketing Project. The current Mission Director is working on shortening the Mission "pipeline" amount. In this regard, he stated that the aging report which the Controller's Office prepared was useful and that he planned to have the Controller repeat this exercise on a quarterly basis.

#### Recommendation No. 1

We recommend that USAID/Jamaica:

- a. establish a strict financial management policy through Mission Orders, or their equivalent, prescribing acceptable "pipeline" thresholds, and responsibilities and actions to be taken for projects not meeting planned spending levels; and
- b. identify and prioritize by dollar value and age, those projects in its portfolio which are not currently meeting planned spending levels, and reprogram and/or deobligate funds from those projects not meeting planned spending levels, unless project managers can provide and demonstrate that original spending targets will be achieved in the near future.

#### Mission Comments

USAID/Jamaica issued a standard operating procedure prescribing responsibilities and procedures for projects not meeting planned spending levels. The Mission stated that the newly issued procedure and the Mission's on-going pipeline review process have made a major start on eliminating from the Mission's portfolio those portions of projects which cannot (or should not) meet planned spending levels. AID/W has concurred with the Mission's approach to reducing its large pipeline.

Inspector General Comments

The systematic approach that USAID/Jamaica has taken to reduce its high pipeline amount should have long-term positive results. The recommendation was closed upon issuance of the report.



MEMORANDUM

June 16, 1986

TO: GIG/A/T:Coinage Gothard  
FROM: DIRECTOR:WRJoslin *W. Joslin*  
SUBJ: Draft Audit of USAID/Jamaica Agricultural Marketing  
Development Project No. 532-0060

Enclosed for your review and action is the Mission's response to the subject draft audit report. Per our telephone conversation on Wednesday, June 3, also enclosed is a copy of your draft report with my hand written comments.

Enclosures:as stated

Inspector General Comments

USAID/Jamaica originally included the comments on the project "pipeline" issue with its comments on the Jamaica Agricultural Development Project. The project "pipeline" comments were separated and have been included with this report.

Annexed information referred to in the Mission's comments was considered in finalizing the report; however, it has not been included herewith.

Recommendation No. 1

"We recommend that USAID/Jamaica:

- a. Establish a strict financial management policy through Mission Orders, or their equivalent, prescribing acceptable pipeline thresholds, and responsibilities and actions to be taken for projects not meeting planned spending levels; and,
- b. Identify and prioritize by dollar value and age, those projects in its portfolio which are not currently meeting planned spending levels and deobligate funds from those projects not meeting planned spending levels unless project managers can provide and demonstrate that original spending targets will be achieved in the near future."

Mission Response

- 1a. In response to Recommendation No. 1a, USAID/Jamaica has issued a standard operating procedure (SOP) prescribing responsibilities and procedures for projects not meeting planned spending levels. The SOP is attached as Annex I.
- 1b. USAID/Jamaica reviewed all projects in FY 1985 and deobligated a total of \$9.5 million from projects not meeting acceptable spending levels, namely, Projects 532-0060, 532-0081, 532-0065 and 532-0059. The initial \$4.5 million was reobligated in FY 1985 for Project 532-0123, Crop Diversification/Irrigation and the balance will be reobligated in FY 1986 for the new Inner Kingston Development, Project No. 532-0120, as soon as AID/W completes the CN requested 05/21/86.

Three Projects, 532-0064, 532-0060 and 532-0065 have each undergone a rigorous re-working to reduce complexity and streamline implementation to accelerate implementation and project disbursement.

Project 532-0064, Health Management Improvement, has been revised to eliminate many small components and focus the Project on rehabilitating primary health facilities, reinforce the GOJ's hospital rationalization program, develop workable health care financing reforms and improve Ministry financial management. The rehabilitation of primary health care centers which was at a standstill is now moving forward at a steady pace.

The revision of Project 532-0065, Energy Sector Development, includes streamlining project activities to focus specifically on energy saving improvements in the critical tourism sector, particularly small hotels and public facilities. This is being done by reprogramming funds for energy saving equipment and related modifications in small hotels, which also serves to reinforce the economic growth aspects of our Mission strategy. Other funds are being focused on the National Water Commission to effect major energy savings by updating the water supply systems.

Project 532-0060, Agricultural Marketing, is undergoing revision to include rehabilitation of rural roads as discussed previously.

Credit financing segments of Projects 532-0091, 532-0081 and 532-0065 have been revised as a result of changed circumstances (i.e. GOJ relaxation of foreign exchange procedures) to allow financing of local currency costs as well as foreign exchange financing. Consequently, AID funds under these programs are already being disbursed at a greater rate than in the past.

This on-going review procedure with regard to the pipeline combined with the actions prescribed by the Mission standard operating procedure established in response to Recommendation No. 1a make a major start on eliminating from the Mission's portfolio those portions of projects which cannot (or should not) meet planned spending levels. Completion of these efforts in the coming months will be followed by further review of the portfolio in an on-going process of vigorously addressing a pipeline which is correctly identified as much too big.

AID/W has concurred with this approach, as noted in paragraph 10 of the Program Week approval cable attached as Annex J.

### Conclusion

Based upon Mission actions taken to date, Mission requests that Recommendations 1a and 1b be closed on issuance of the report.

Attachments: as stated

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