

PD-AAW-052

01-57

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES

Audit Report No. 1-505-87-37  
August 19, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY

TEGUCIGALPA HONDURAS

TELEPHONES

32 9987

also 32 3120 EXT. 2701 2703

MAILING ADDRESS  
RIG/T  
APO MIAMI 34022

August 19, 1987

MEMORANDUM

TO : AID Representative to Belize, Neboysa Brashich  
FROM : RIG/A/T, *Coinage N. Gothard*  
SUBJECT: Audit of AID/Belize's Portfolio and Operating Expenses,  
Report No. 1-505-87-37

This report presents the results of audit of AID/Belize's Portfolio and Operating Expenses. The Office of the Regional Inspector General for Audit/Tegucigalpa made an economy and efficiency audit at AID/Belize. Specific audit objectives were to evaluate AID/Belize and selected recipients' administrative procedures, fiscal and internal control procedures, procurement practices, and compliance with applicable laws and regulations.

There were several areas where economies and efficiencies in management and performance needed to be improved. For AID/Belize and certain recipients, there were deficiencies in administration, fiscal and internal controls and procurement. There were other areas where AID/Belize and recipients were not in compliance with applicable laws and regulations.

Certain of the delegations of authority for AID/Belize were not clear, and due to misinterpretations, AID/Belize was not in compliance with them. AID/Belize's procurement practices were ineffective due to the absence of procurement expertise and an underlying urgency to establish an AID Office and get projects and activities on-stream, resulting in the absence of support, justification and rationale in AID/Belize's official files. Inventory controls were inadequate to safeguard non-expendable and expendable property, and AID/Belize did not use the Government of Belize's Ministry of Works equipment inventory control system for spare parts procured for the Roads and Bridges project. Basic plans and inventory controls for \$200,000 in shop tools were not used. Informal accounting records had not been established and there was no evidence that AID/Belize had made periodic reconciliations with its authorized accounting station. AID/Belize had not initiated reviews of its project recipients to determine if management, accounting and internal control practices were adequate, and management and internal controls over duty-free purchases of gasoline from local vendors in Belize were not adequate. Administrative procedures of AID/Belize were weak and needed to be improved, and an estimated \$21,931 in interest income was due the U.S. Government.

We have recommended that Delegations of Authority be clarified, and that certain procurement and inventory practices be strengthened. We have also made recommendations designed to improve accounting, administrative and internal controls, including cost recoveries from certain AID recipients and the Belize Central Bank.

You have generally concurred with five of the nine report findings, and partially concurred with others. You have taken strong exception to the audit findings related to the Roads and Bridges Project No. 505-0007, and you have noted that communications between yourself and the audit team needed improvement. Your response in its entirety is attached as Appendix 1.

I, too, agree that effective communications between management and audit is essential. Perhaps you did not take advantage of communications directed by us through your designated audit liaison officer, especially in bringing you up-to-date subsequent to your periodic absences during the audit. Nonetheless, in response to your observations contained in pages 1 to 4 of Appendix i, I have listed 30 documented RIG/A/T attempts to effectively communicate with you and your designated representatives during the audit. These are listed in Appendix 2. In addition, your program staff was invited, and did accompany the audit team on several field trips and interviews.

Please provide written notice within 30 days of any additional information related to actions planned or taken to implement the audit recommendations.

## EXECUTIVE SUMMARY

Belize (formerly British Honduras) is located on the Caribbean coast of Central America, bounded by Mexico and Guatemala. Belize achieved full independence from the United Kingdom on September 21, 1981. The estimated population of Belize in 1984 was 161,500. Almost one-third, or 45,000 of its inhabitants lived in Belize City, the commercial capital and largest city. The country's main exports are bananas, citrus, fish products, garments, sugar and timber.

As of December 31, 1986 the Agency for International Development project portfolio in Belize (AID/Belize) consisted of 29 projects totaling \$53 million in obligations, its cumulative Operating Expense was \$647,685 in obligations. Located in Belize City, Belize, this Office carries out the AID program in prefabricated quarters purchased by AID and brought to Belize for this purpose.

The Office of the Regional Inspector General for Audit/Tegucigalpa made an economy and efficiency audit at AID/Belize. The overall objective of the audit was to determine whether AID/Belize and its recipients were using resources economically and efficiently, the causes of inefficient or uneconomical practices, and whether there was compliance with laws and regulations concerning matters of economy and efficiency. Specific audit objectives were to evaluate AID/Belize and selected recipients' administrative procedures, fiscal and internal control procedures, procurement practices, and compliance with applicable laws and regulations.

There were several areas where economies and efficiencies in management and performance needed to be improved. For AID/Belize and certain recipients, there were deficiencies in administration, fiscal and internal controls and procurement. There were other areas where AID/Belize and recipients were not in compliance with applicable laws and regulations.

The systems of accounting and internal control for the Government of Belize's Central Bank were in place and were generally adequate to account for the generation and use of Economic Support Fund (ESF)-generated local currencies, and the inventory and warehousing practices of the Government of Belize's Ministry of Works were generally adequate. Beginning with a staff of only 2 in January 1983, AID/Belize had erected an office and warehouse, and had attracted a total staff of about 40 individuals. Its Controller's Office had the in-house capabilities to review the accounting and internal control systems and practices of AID-financed recipients physically located in Belize.

The audit identified several areas in need of improvement. Certain delegations of authority made to AID/Belize were not clear and AID/Belize may not be in compliance due to misinterpretations thereof. AID/Belize's procurement practices were ineffective and needed to be improved, inventory controls were not used and others were not adequate. Accounting practices and internal controls of AID/Belize needed to be strengthened, none of the accounting systems, practices and internal

controls of the AID-financed recipients located in Belize had been reviewed, and some were inadequate. Management and internal controls providing for duty-free purchases of gasoline from local vendors were weak, as were the overall administrative practices of AID/Belize.

AID's Delegations of Authority, which define officers' authority to act, were reorganized in September 1986. Certain of the delegations of authority for AID/Belize were not clear, and due to misinterpretations, AID/Belize was not in compliance with them. Consequently, the AID/Belize Principal Officer exceeded contracting authorities in five instances for a cumulative amount of \$99,795 in obligations. AID/Belize needs clearly defined delegations of authority in order to carry out its mandate of providing economic assistance. Contract awards executed by AID/Belize's Principal Officer that exceeded established authorities must be ratified by the AID Procurement Executive in accordance with the Federal Acquisition Regulations. We have recommended that four AID/Washington Offices take corrective actions. AID/Belize felt that it should not be the action office for the clarification. The awards have been ratified.

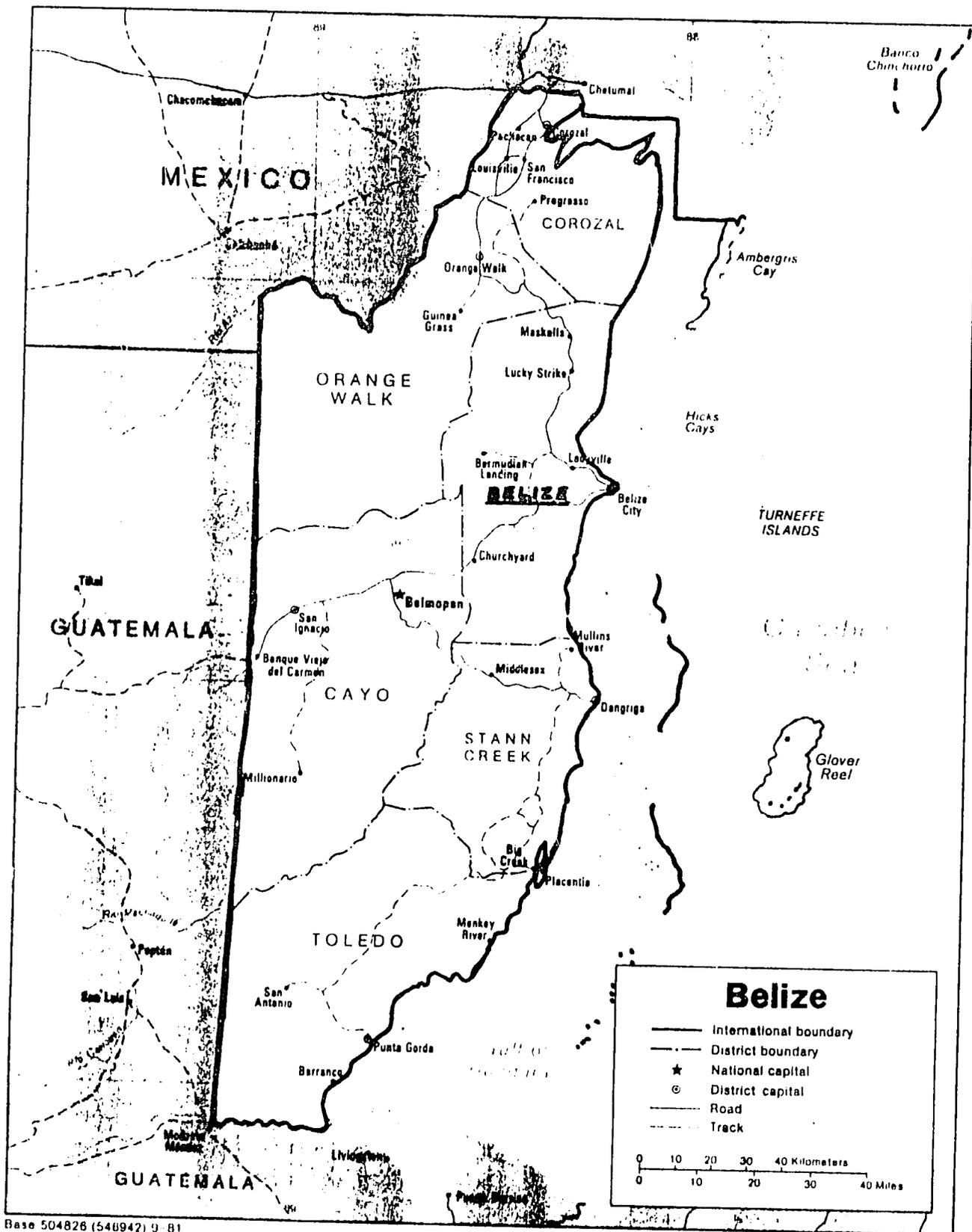
Procurement entails the utilization of funds to obtain goods and resources. AID procurement policy also calls for a reasonable measure of competition between suppliers or contractors to ensure that AID pays a reasonable price for goods and services. AID/Belize's procurement practices were ineffective due to the absence of procurement expertise, and an underlying urgency to establish an AID Office and get projects and activities on-stream, and resulted in the absence of support, justification and rationale in AID/Belize's official files. There was insufficient evidence to support management decisions for the acquisition of hundreds of thousands of dollars in goods and resources, AID/Belize's extensive use of sole-source procurement resulted in payments for goods at higher prices, and technical assistance services were not effective. We have recommended that AID/Belize correct these shortfalls. AID/Belize accepted the principle of the audit recommendation, but felt the procurement deficiencies did not reflect procurements as a whole.

Inventory control entails coordination and supervision of the supply, storage, distribution, and recording of materials to maintain quantities adequate for current needs without excessive oversupply or loss. AID/Belize's inventory controls were inadequate to safeguard its non-expendable and expendable property. In addition, AID/Belize did not use the Government of Belize's Ministry of Works equipment inventory control system for spare parts procured for the Roads and Bridges project. The non-expendable and expendable property was not being properly safeguarded due to ineffective management practices and the lack of written guidance on the establishment and recording of materials. Based on AID/Washington advice, AID/Belize reversed the management plans calling for the Ministry to manage the procurement and inventory for the Roads and Bridges project because it considered the Ministry incapable of handling the task. Consequently, AID/Belize's non-expendable and expendable property was not being safeguarded from waste and abuse. As a result of not using the Ministry's established inventory control system, over \$300,000 in project-financed Caterpillar and Ford spare parts were commingled with the inventory of a local for-profit Caterpillar

dealership, and at least \$50,000 in project-financed spare parts were issued to unidentified individuals. We have recommended that AID/Belize improve inventory controls. AID/Belize was not in complete agreement but has initiated corrective actions including a partial physical inventory of parts, and the establishment of written procedural guidance.

Other problems were identified such as inadequate controls over a shop tool inventory and gasoline purchases, the lack of accounting controls and ineffective administrative procedures, and the need to collect interest earned on project disbursements. AID/Belize basically agreed with the findings and recommendations.

*Office of the Inspector General*



AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES

TABLE OF CONTENTS

	<u>Page</u>
PART I - INTRODUCTION	1
A. Background	1
B. Audit Objectives and Scope	1
PART II - RESULTS OF AUDIT	3
A. Findings and Recommendations	4
1. Contracting Authorities Were Not Clear	4
2. AID/Belize's Procurement Practices Were Ineffective	10
3. AID/Belize Inventory Controls Were Inadequate	18
4. Inventory Controls for \$200,000 in Shop Tools under Project No. 505-0007 Were Inadequate	22
5. Accounting Practices and Internal Controls of AID/Belize Needed To Be Strengthened	25
6. Accounting Practices and Internal Controls of Project Recipients Were Inadequate and Needed to be Reviewed	28
7. Controls Providing For Duty Free Purchases Of Gasoline Needed To Be Strengthened	31
8. Administrative Procedures of AID/Belize Needed To Be Improved	33
9. Interest Income Needed to be Refunded	37
B. Compliance and Internal Control	39
C. Other Pertinent Matters	40

PART III - EXHIBITS AND APPENDICES

A. Exhibits

1. AID/Belize's Two-story Office Building
2. Prefabricated Housing Units
3. Bridge Components
4. Commingled Spare Parts

B. Appendices

1. AID/Belize's Response
2. Record of RIG/A/T Communication Efforts
3. List of Recommendations
4. Report Distribution

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES

PART I - INTRODUCTION

A. Background

Belize (formerly British Honduras) is located on the Caribbean coast of Central America, bounded by Mexico and Guatemala. Belize achieved full independence from the United Kingdom on September 21, 1981. The estimated population of Belize in 1984 was 161,500. Almost one-third, or 45,000 of its inhabitants lived in Belize City, the commercial capital and largest city. The country's main exports are bananas, citrus, fish products, garments, sugar and timber.

The Agency for International Development (AID) established a bilateral Office in Belize in January 1983. The program emphasized economic stabilization over the near term, and support for investment in export-related agriculture and industry over the longer term. A combination of Development Assistance, Economic Support and Housing Guaranty resources was employed. The overall U.S. objective was to maintain friendly relations with Belize and to assure a democratic, independent, economically viable country supportive of U.S. policies and capable of maintaining its territorial integrity. The rationale for the AID assistance flowed from this U.S. objective, as well as from the Caribbean Basin Initiative and from the Central America Democracy, Peace and Development Initiative. An extended period of U.S. economic assistance for Belize was not envisaged. The economic assistance program is administered by an AID/Representative (AID/Belize) rather than a Mission (USAID).

As of December 31, 1986 the AID/Belize portfolio consisted of 29 projects totaling \$53 million in obligations, its cumulative Operating Expense was \$647,685 in obligations. Located in Belize City, Belize, this Office carries out the AID program in prefabricated quarters purchased by AID and brought to Belize for this purpose.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa made an economy and efficiency audit at AID/Belize. The overall objective of the audit was to determine whether AID/Belize and its recipients were using resources economically and efficiently, the causes of inefficient or uneconomical practices, and whether there was compliance with laws and regulations concerning matters of economy and efficiency. Specific audit objectives were to evaluate AID/Belize and selected recipients' administrative procedures, fiscal and internal control procedures, procurement practices, and compliance with applicable laws and regulations.

Audit work was done at AID/Belize and at its official accounting station located in Tegucigalpa, Honduras. Audit verification included physical

inspections of certain inventories, reviews of records and files, tests of cost claims and interviews with responsible AID/Belize, recipient and host government officials. The audit included tests of \$2.5 million in expenditures relevant to eight projects totaling \$33.3 million in obligations and to the \$647,685 obligated for operating expense. Emphasis was placed on AID/Belize's Rural Roads and Bridges Project No. 505-0007 because it was one of the first and most visible projects, significant procurement actions were made, and it was a known problem project. Audit fieldwork was made beginning January 27, 1987 and was concluded with an exit conference on May 11 and 12, 1987. During the audit, 18 Records of Audit Findings (RAFTs) were issued. AID/Belize had generally concurred, responded to, and initiated corrective actions on most of the RAFTs. On July 31, 1987 AID/Belize formally responded to our draft audit report and took exception to those findings regarding the Rural Roads and Bridges Project No. 505-0007. Their comments were considered in the preparation of this report and are included as Appendix 1. Tests of internal controls were made at AID/Belize, at the offices of selected recipients, and at the Government of Belize's Central Bank. The audit was made in accordance with generally accepted government auditing standards.

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES

PART II - RESULTS OF AUDIT

There were several areas where economies and efficiencies in management and performance needed to be improved. For AID/Belize and certain recipients, there were deficiencies in administration, fiscal and internal controls and procurement. There were other areas where AID/Belize and recipients were not in compliance with applicable laws and regulations.

The systems of accounting and internal control for the Government of Belize's Central Bank were in place and were generally adequate to account for the generation and use of Economic Support Fund (ESF)-generated local currencies, and the inventory and warehousing practices of the Government of Belize's Ministry of Works were generally adequate. Beginning with a staff of only 2 in January 1983, AID/Belize had erected an office and warehouse, and had attracted a total staff of about 40 individuals. Its Controller's Office had the in-house capabilities to review the accounting and internal control systems and practices of AID-financed recipients physically located in Belize.

Certain delegations of authority made to AID/Belize were not clear and AID/Belize may not be in compliance due to misinterpretations thereof. AID/Belize's procurement practices were ineffective and needed to be improved, inventory controls were not used and others were not adequate. Accounting practices and internal controls of AID/Belize needed to be strengthened; none of the accounting systems, practices and internal controls of the AID-financed recipients located in Belize had been reviewed, and some were inadequate. Management and internal controls providing for duty-free purchases of gasoline from local vendors were weak, as were the overall administrative practices of AID/Belize.

At the time of audit, several key documents were not made available for audit due to the incomplete records and files of AID/Belize. These included a record of bids made by vendors to deliver and erect portable housing; a retired Latin America/Caribbean (LAC) engineer's justification for management decisions affecting the host government and a for-profit firm, and his rationale for recommending certain personal services contractors; and records of communications between AID/Belize and a host government Ministry. Subsequent to audit, AID/Belize has stated that many of the documents have been obtained. Their submission of the documentation to this Office will assist in resolving recommended actions.

This report contains nine recommendations. We have recommended that responsible AID/Washington Offices review and clarify, as warranted, AID/Belize delegations of authority. A qualified procurement officer is needed to assist AID/Belize, and the continued usefulness of certain project-related personal services contracts need to be evaluated. Means of improving in-house and project-related inventory controls have also been recommended; other recommendations address accounting practices, internal controls and administrative procedures.

## A. Findings and Recommendations

### 1. Contracting Authorities Were Not Clear

AID's Delegations of Authority, which define officers' authority to act, were reorganized in September 1986. Certain of the delegations of authority for AID/Belize were not clear, and due to misinterpretations, AID/Belize was not in compliance with them. Consequently, the AID/Belize Principal Officer exceeded contracting authorities in five instances for a cumulative amount of \$99,795 in obligations. AID/Belize needs clearly defined delegations of authority in order to carry out its mandate of providing economic assistance. Contract awards executed by AID/Belize's Principal Officer that exceeded established authorities must be ratified by the AID Procurement Executive in accordance with the Federal Acquisition Regulations (FAR).

#### Recommendation No. 1

We recommend that AID/Belize request and obtain:

- a) a review by and clarification from AID's Office of the General Counsel, the AID Directorate for Program and Management Services, and AID's Bureau for Latin America and the Caribbean on Redelegations of Authority No. 99.1.202, 133.3.1 and 149.1.1 and their renumbered successors; and
- b) a determination from AID's Associate Assistant to the Administrator for Management and subsequent ratification for \$99,795 in obligations for five awards that exceeded the contracting authorities of the AID/Belize Principal Officer.

#### Discussion

In order to effectively carry out the Agency's mandate of economic assistance, authorities have been delegated to AID offices, Missions and key officials. AID's Delegations of Authority have been centralized in AID Handbook 5. The system had numbered delegations chronologically; redelegations were numbered based on the underlying delegation. Effective September 1, 1986, Delegations of Authority were reorganized along functional lines, and the term Redelegation by Authority was abolished.

Because delegations of authority have been rewritten, revoked and renumbered during the Agency's life, the status of these rules is sometimes unclear, and one delegation of authority may have been revoked. We identified three delegations of authority and one AID acquisition regulation (AIDAR) pertinent to AID/Belize contracting authorities. The three redelegations of authority were numbers 99.1.202 (which was not cross-referenced to a new number), 133.3.1 (now Delegation of Authority No. 755) and 149.1.1 (now Delegation of Authority No. 452). Each affected the AID/Belize Principal Officer's contracting authorities. As shown below, these designation changes did not alter the original authorities.

Date	Delegation No.	Ceilings for			
		Grants/ Contracts	Cooperative Agreements	Personal Services Contracts	Operational Program Grants
2/23/83	99.1.202	\$ 100,000	\$100,000	\$250,000	\$1,000,000
4/29/83	133.3.1 (755)	NA	NA	NA	\$ 500,000 <u>3/</u>
6/01/85	149.1.1 (452)	\$5,000,000 <u>1/</u>	\$100,000	NA	NA
12/26/85	702.170.10 (AIDAR)	\$ 100,000 <u>2/</u>	NA	\$250,000	NA

Redelegation of Authority No. 99.1.202 - On February 23, 1983 this Redelegation of Authority Regarding Contracting Functions was issued by the Director, Office of Contract Management for AID Mission Directors and Principal Officers in Latin America and the Caribbean. The redelegation established ceilings on contracts, grants to other than foreign governments, cooperative agreements, personal services contracts and operational program grants (OPGs) to U.S. Private Voluntary Organizations (PVOs). The redelegation was comprehensive in that it covered almost all the contracting modes normally used by AID.

This redelegation of authority included AID/Belize and gave its Principal Officer "authorities to sign" contracts, grants to other than foreign governments and cooperative agreements, and amendments thereto, provided that the aggregate amount of each instrument did not exceed \$100,000. The redelegation of authority gave the AID/Belize Principal Officer "authorities to sign" personal services contracts provided the aggregate amount of each instrument did not exceed \$250,000. Finally, the redelegation of authority gave the AID/Belize Principal Officer "authorities to sign" operational program grants to PVOs provided that the aggregate amount of each OPG did not exceed \$1 million. On December 26, 1985 the ceilings of \$100,000 and \$250,000 for contracts and personal services contracts, respectively, were confirmed in AIDAR 702.170.10.

Of greater concern is the possibility that Redelegation of Authority No. 99.1.202 has been revoked, leaving a potential criteria vacuum for AID/Belize as to whether or not the \$1 million ceiling for OPGs is still

1/ Addressed only grants to other than foreign governments. Contracts were not included.

2/ Established a ceiling only for contracts.

3/ Even though the Delegation of Authority states grants to PVOs, we were advised that the intent was OPGs to PVOs.

in effect. The newly organized AID Handbook 5 contains a table showing the old and new numeric designations for all existing delegations. This table did not cross-reference Redelegation of Authority No. 99.1.202, indicating that it is no longer in force. We were advised that the Redelegation of Authority may have been revoked on June 1, 1985.

Redelegation of Authority No. 133.3.1 - This redelegation of authority was issued by the Assistant Administrator, Bureau for Latin America and the Caribbean, on April 29, 1983. Effective April 29, 1986 it was changed to Delegation of Authority No. 755. Both gave the AID/Belize Principal Officer the "authority to authorize" project assistance for grants to PVOs, including amendments, for total life-of-project funding not to exceed \$500,000. They did not establish ceilings for contracts, grants to other than foreign governments, cooperative agreements and personal services contracts. They lowered the AID/Belize Principal Officer's ceiling for grants to PVOs from \$1 million to \$500,000.

In our opinion, allowing the AID/Belize Principal Officer to sign OPGs up to \$1 million, yet requiring clearance from AID/Washington for those exceeding \$500,000 was inconsistent and placed an additional administrative burden on the Principal Officer in executing OPGs and supporting the PVO concept. Also in our opinion, Redelegation of Authority No. 133.3.1 (now 755) should have at least been cleared by the AID Procurement Executive prior to issuance to ensure that there was no conflict with other existing delegations of authorities.

Redelegation of Authority No. 149.1.1 - This redelegation of authority was issued by AID's Associate Assistant to the Administrator for Management and was effective June 1, 1985. It was changed to Delegation of Authority No. 452 effective September 1, 1986. They gave Mission Directors and AID Principal Officers in the field, including Belize, the "authority to execute" cooperative agreements and grants to other than foreign governments provided that the aggregate amount of each instrument did not exceed \$100,000 and \$5 million, respectively. However they did not establish ceilings for personal services contracts or OPGs. Technically, they only raised the ceiling for grants to other than foreign governments from \$100,000 to \$5 million.

Contract Ceilings Exceeded - There were five instances where the AID/Belize Principal Officer executed agreements, and amendments thereto, and the aggregate amounts exceeded delegated authorities. For personal services contracts, we used the \$250,000 ceiling established in Redelegation of Authority No. 99.1.202 and AIDAR 702.170.10. For contracts too, we used the \$100,000 ceiling established in Redelegation of Authority No. 99.1.202 and AIDAR 702.170.10. These needed to be reviewed by AID's Procurement Executive for ratification, as needed.

<u>Agreement No.</u>	<u>Type</u>	<u>Amount</u>	<u>Established Ceiling</u>	<u>In Excess</u>
(1) LAC-0007-S-00-4023-00	PSC	\$ 271,126	\$250,000	\$ 21,126
(2) LAC-0007-S-00-4026-02	PSC	\$ 266,786	\$250,000	16,786
(3) 505-0012-C-86-0007	PSC	\$ 251,483	\$250,000	1,483
(4) 505-0000-C-00-5224	Contract	\$ 155,000	\$100,000	55,000
(5) 505-597-0001-C-86-0025-01	Contract	\$ 105,400	\$100,000	5,400
TOTAL				\$ 99,795 =====

During the audit, AID/Belize initiated immediate actions to correct these conditions. They responded that ratification had been obtained from the AID Procurement Executive for the \$21,126 in obligations for Agreement (1), above. Moreover, ratifications were in process for Agreements (2), (4) and (5) above, which totaled \$77,186 in obligations. Expenditures for Agreement (3), above, were only \$117,800 and AID/Belize reported that it reduced obligations to that amount, therefore lowering the ceiling within the Principal Officer's authorized delegation. AID/Belize also demonstrated that it did not exceed established ceilings for two OPGs that appeared to be \$315,000 in excess, and agreed that the subject delegations of authority were not clear as follows:

USAID met with IAC/GC [Latin America and Caribbean, General Counsel] several times to clarify delegations to USAID/Belize, especially in relation to questions raised by RIG/A/T on redelegation Nos. 99.1.202, 149.1.1, and 133.1.1. On 4/30/87, IAC/GC and USAID also met with IG/LC [Inspector General, Legal Counsel]. In that meeting, all parties agreed to points raised in the Memorandum from Rodney Johnson, IAC/GC to Robert Perkins, IG/LC. Briefly, those points were that: the \$500,000 limitation related solely to the authority to authorize project assistance; Redelegation of Authority 99.1.202, in effect between February 23, 1983 and June 1, 1985, authorized the AID Representative to execute OPGs with PVOs at NTE [not to exceed] \$1,000,000; and Delegation of Authority (DOA) 452, in effect from June 1, 1985 to the present, authorizes the AID Representative to execute nongovernmental grants at NTE \$5 million.

The Memorandum concludes that "assuming the two OPGs were signed between February 23, 1983 and June 1, 1985, the AID Representative in Belize had authority to sign individual OPGs up to \$1 million and there would appear here to be no violation as one OPG was for \$700,000 and the other \$615,000." USAID understands that in the telcon received by RIG/A/T from IG/LC on May 11, 1987 at USAID, IG/LC expressed agreement with the LAC/GC opinion as contained in the Memorandum. OPG No. 505-0023 was signed on July 31, 1984, while OPG No. 505-0024 was signed on August 30, 1984. It should be noted that OPG No. 505-0024 was amended on January 7, 1986 when DOA 452, limiting the AID Representative to \$5 million for nongovernmental grants was in effect.

The opinion from IAC/GC indicates that the AID Representative/Belize did not exceed ceilings in the cases of OPGs 505-0023 and 505-0024. USAID agrees with RIG/A/T that there is a lack of clarity in Delegations of Authority, and in its FY 1988-89 Action Plan, credited RIG/A/T in identifying this problem. [emphasis added]

#### Management Comments

Pages 9 to 11 of Appendix 1 contain AID/Belize's responses to the finding and recommendation. Subsequent to audit, AID/Belize obtained another opinion from a Regional Legal Advisor (RLA). Basically, this RLA thought that the subject Delegations of Authority were not ambiguous and that the recommended clarifications were not needed. The RLA concluded that the auditors were confused as to the distinction between project approval and authorities to sign executing instruments. Consequently, AID/Belize suggested that Part a) of Recommendation No. 1 be redirected to AID/Washington. AID/Belize also provided additional information on the status of ratifications made by the AID Procurement Executive.

#### Office of Inspector General Comments

AID/Belize at first agreed that there was a lack of clarity in Delegations of Authority and had noted this in its Action Plan. Also, AID/Belize stated that it had met several times with its AID/Washington legal advisor about the subject Delegations. In the draft audit report we noted that our inquiries to various AID/Washington legal advisors had resulted in inconclusive responses. Since both AID/Belize and this Office had already sought senior-level legal advice from their Washington headquarters offices, we do not understand why AID/Belize subsequently pursued legal advice at the field (RLA) level. Nonetheless, the dissenting opinion of the RLA further confirms that the subject Delegations of Authority need to be addressed. Since the audit finding is AID/Belize-specific, it is appropriate that AID/Belize be the action office for the recommendation. AID/Washington may wish to address other

ambiguous Delegations at its convenience. Therefore, Part a) of Recommendation No. 1 has not been redirected to AID/Washington as suggested. AID/Belize has provided sufficient narrative to resolve Part b) of Recommendation No. 1 which may be closed upon receipt of evidence that the AID Procurement Executive has ratified \$98,312 in obligations, and evidence that AID/Belize has lowered the ceiling for Contract No. 505-0012-C-86-0007 from \$251,483 to \$117,800.

## 2. AID/Belize's Procurement Practices Were Ineffective

Procurement entails the utilization of funds to obtain goods and resources. AID procurement policy also calls for a reasonable measure of competition between suppliers or contractors to ensure that AID pays a reasonable price for goods and services. AID/Belize's procurement practices were ineffective due to the absence of procurement expertise and an underlying urgency to establish an AID Office and get projects and activities on-stream, and resulted in the absence of support, justification and rationale in AID/Belize's official files. There was insufficient evidence to support management decisions for the acquisition of hundreds of thousands of dollars in goods and resources, AID/Belize's extensive use of sole-source procurement resulted in payments for goods at higher prices, and technical assistance services were not effective.

### Recommendation No. 2

We recommend that AID/Belize:

- a) coordinate with the Bureau for Latin America and the Caribbean and formally designate a qualified procurement officer i) to provide training to the designated Mission procurement officer, develop procurement procedures, and ii) to make periodic visits to AID/Belize to ensure the efficient and effective implementation of the procurement systems;
- b) either abandon the Personal Services Contracting concept for the Roads and Bridges Project No. 505-0007 and, in coordination with the Government of Belize's Ministry of Works, procure the services of a reputable consulting firm to provide technical assistance for Phase II of the project; or
- c) realign the Personal Services Contractor team assigned to the Roads and Bridges Project No. 505-0007 so that a project team leader is named, and defined implementation and reporting responsibilities are established.

### Discussion

Procurement responsibilities may be assigned to a host country, a U.S. Government entity (including AID), or to a combination thereof. If a host country assumes procurement responsibility, it may either assign that responsibility to an agency of the government, retain a commercial purchasing agency in the U.S., or assign materials purchasing responsibility to a technical services contractor. If AID accepts procurement responsibility, it may either undertake the procurement of services of commodities itself, include responsibility for procurement in a contract, request another U.S. Government agency to make the procurement, or make arrangements for procurement with a commercial purchasing agent based on the request of the host country.

AID/Belize initially accepted procurement responsibility to find and lease property and to erect an AID office and warehouse during 1984 because adequate facilities for purchase or lease did not exist. During

this time AID/Belize also accepted procurement responsibility for one of its first and most visible projects, even though the host government's executing entity had been deemed capable of the procurement function. The absence of procurement expertise at AID/Belize, and the underlying urgency to become established and start projects resulted in several sole-source and other procurement actions that were not fully documented or justified. In several instances, prices paid by AID/Belize exceeded those that would have been paid by prudent management.

Porta-Kamp Procurement Using Operating Expense Funding - On September 24, 1984 AID/Belize executed a contract in the amount of \$179,099 with the Porta-Kamp Manufacturing Company, Incorporated for the delivery and erection of a prefabricated, two-story office building and concrete foundation. The source of funding was operating expense. It could not be determined if AID/Belize paid the best price for the prefabricated structure because there was no evidence that the procurement had been advertised and competitive bids received. Nonetheless, by mid-December 1984 the AID/Belize office building had been erected (see Exhibit 1).

In September 1985, AID/Belize's General Services Officer requested a waiver to contract sole-source with Porta-Kamp for the delivery and erection of a warehouse and office at an estimated cost of \$25,000. In addition to using as justification Porta-Kamp's excellent performance on the delivery and erection of the two-story office building, a \$67,000 increase in AID/Belize's operating expense funding was used as justification to forego competitive bidding procedures so that operating expense funding could be expended before the end of the fiscal year. Unused operating expense funds must be returned to the U.S. Treasury if they are not obligated in the fiscal year for which they are appropriated. Again, a contract was awarded to Porta-Kamp without determining if AID had received the best price.

Porta-Kamp Procurement Using Project Funding - AID/Belize's association with Porta-Kamp also influenced project procurement. The Roads and Bridges Project No. 505-0007 had started in September 1983. U.S.-procured technical assistance had been, or was in the process of being, contracted to assist the host government in constructing 300 miles of secondary roads and 54 bridges. Mobile housing was needed to facilitate the contract technicians' provision of assistance at the work sites with a minimum of travel. Because of shipping costs, the concept of mobile housing was abandoned. Instead, AID/Belize contracted, on behalf of the Ministry of Works (MOW), with Porta-Kamp to deliver and erect five prefabricated housing units at an estimated cost of \$119,270 (see Exhibit 2). There was no evidence in AID/Belize's files that the housing requirement had been advertised for competitive bidding. The Principal Officer advised us that the procurement was made on the basis of a recommendation made by a IAC engineer. A contract technician advised us that three bids had been received, and Porta-Kamp selected. There was no record of the three bids at AID/Belize. However, other correspondence helped to clarify the issue.

On January 27, 1984 the former Ministry of Works advised the AID/Belize Principal Officer:

The recommended procurement of portable housing from Hanet International is made pursuant to a determination by AID permitting informal solicitation to be used and a waiver by AID of advertising. In this regard, the solicitation by AID on our behalf from Porta-Kamp, Hanet International and Modular Complex Company complies with the requirement to solicit a reasonable number of sources. The Hanet International quotation is the lowest price received and the most advantageous to the purchaser. (Underscoring added.)

Also on January 27, 1984 the Acting AID/Belize Representative advised the former Ministry of Works:

At this time, we are not furnishing for your approval or signature a purchase order for the housing units. Our review of price quotations received indicates that additional inquiries must be made to Porta-Kamp and Hanet International in order to assure your award to the most advantageous offer.

Then on February 6, 1984 the former Ministry of Works advised the AID/Belize Principal Officer:

The recommended procurement of portable housing from Porta-Kamp is made pursuant to a determination by AID permitting informal solicitation to be used and a waiver by AID of advertising. In this regard, the solicitation by AID on our behalf from Porta-Kamp, Hanet International and Modular Complex Company complies with the requirement to solicit a reasonable number of sources. The Porta-Kamp quotation is the most advantageous to the purchaser. (Underscoring added.)

On March 19, 1987 the former Minister of Works, who was responsible at the time, advised us that the host government had no records or files on this procurement, and that he did not know which of the three companies had made the most advantageous offer. He added that the January 27, 1984 and February 6, 1984 correspondence had been prepared in AID/Belize and merely passed on to him for his signature. Subsequent to audit, AID/Belize apparently received from the aforementioned Minister of Works correspondence that contradicted his March 19, 1987 comments. Pages 13 to 15 of Appendix 1 contain the former Minister's latest recollections on the process of selection that resulted in the Porta-Kamp award, including his surprise that the Ministry of Works offices had no records of files on the procurement. Notwithstanding this reversal in posture, on March 20, 1987 we verified with the current Minister of Works that his office did not have a record of the procurement. Also, as reiterated on page 8

of Appendix 1, AID/Belize had to contact the competing companies, subsequent to audit, to obtain a record of bids for its official files. To sum up, neither AID/Belize nor the host government had adequate documentation to support the procurement.

AID/Belize's relationship with Porta-Kamp sometimes appeared to be less than "arm's length." For example, a November 1984 delivery by Porta-Kamp of over \$2,000 in tools was based on the "verbal" request of a key AID/Belize official. AID/Belize responded that an AID purchase order had been prepared based on the November 1981 proforma invoice that had been analyzed during audit. They added that this operating expense-funded procurement was for tools that were needed for use in erecting the AID/Belize office, delayed receipt of the tools would have called for an extension of the engineer's time, and subsequent engineer costs would have exceeded the \$2,000 in tools.

Conclusions on AID/Belize Porta-Kamp Procurements - AID/Belize relied on Porta-Kamp quotations to provide buildings, furniture, appliances, kitchenware, eating utensils and even such items as washcloths and towels. Based on available documents, AID/Belize procured almost \$670,000 in goods and services through Porta-Kamp on sole-source, non-competitive or other questionable bases. In short, this firm acted as a purchasing agent rather than a supplier. It is hardly surprising, then, that AID/Belize paid \$702 including shipping costs for each 12,000 BTU air conditioner (54 were purchased) while the GSO Federal Supply Service Catalogue priced them at \$516 including shipping costs. AID/Belize paid \$218 for each 19.3-cubic foot freezer, the GSO Federal Supply Service Catalogue quoted 17-cubic foot freezers at \$455. Washer/dryer combinations were purchased for \$361; in August 1986 another Central American Mission was able to purchase similar washer/dryer combinations for \$475.

Spare Parts Procurement - In September 1986 AID/Belize made arrangements with a commercial purchasing agent (Global) to procure about \$141,000 in spare parts on the host government's behalf for the Roads and Bridges project. On February 6, 1987 the Regional Commodity Management Officer/ROCAP submitted to AID/Belize his assessment of its procurement practices, listing 11 shortfalls in the process. Among them:

- There was no host government justification for sole-source waivers.
- There was no Project Implementation Letter (PIL) authorizing the host government entity to proceed with spare parts procurement, and giving procurement guidelines.
- The overall requirement was deliberately split to fall within the AID/Belize Principal Officer's waiver authority.
- There was no host government request for approval of supplier contracts and no corresponding PIL.
- The contracts with the purchasing agent called for payment through Direct Letters of Commitment rather than Bank Letters of Commitment.

- The purchasing agent's fee of 12 percent was 5 percentage points too high for this type of procurement.
- The purchase orders called for U.S. flag ocean shipment even though no such service existed and a waiver already had been issued.
- The purchasing agent presented documentation for payment to AID/Belize rather than to the host government in accordance with the purchase orders.

The Regional Commodity Management Officer concluded that the shortfalls appeared to be the result of limited staffing and the fact that the individual tasked with the procurement was inexperienced in applying AID regulations and procedures.

AID/Belize was critical of the audit because this example represented 0.7 percent of its total off-shore procurement and because they thought that the auditors pointed out that AID/Belize was in error requesting U.S. flag vessels. As clearly stated above, the shortfalls and conclusions are those of a qualified AID Commodity Management Officer.

Contracting - A key element of procurement is contracting for technical services. The contracting process followed by AID/Belize resulted in inefficient technical assistance. In order to provide technical assistance and training for the Roads and Bridges project, AID/Belize executed seven personal services contracts (PSCs) totaling \$1.5 million. The AID/Belize Principal Officer was prohibited from executing institutional contracts in excess of \$100,000 which, in our opinion, would have prevented him from executing contracts with reputable U.S. consulting/engineering firms. However, this official advised us that the personal services contracting route was taken based on the recommendation of a IAC engineer who was familiar with certain individuals with proven expertise in the field. There was no record of the recommendation at AID/Belize. AID/Belize subsequently reported the June 16, 1987 acquisition of a letter from the IAC engineer containing the rationale for using PSCs: they had located a crew who had done effective work for AID in three African countries; and AID could contract for PSCs at their base salary rate, resulting in savings of 30 percent to 40 percent compared with the contract price of a consultant firm. Nonetheless, what resulted was the attraction of seven individuals to Belize who were not organized as a team. The first individual signed his PSC on January 4, 1984, the last individual signed his PSC over a year later on January 18, 1985. The project started on September 30, 1983 and, at the time, was due to be completed on January 1, 1987. The reason for the lapse of a year in executing the first and final contracts was due to AID/Belize's introduction of a bridge component into the project by a project paper amendment, thereby creating the requirement for an expert in bridge construction.

The seven contracts were vague as to the seven contractors' reporting responsibility or who was in charge. It could be construed that all but three of the contractors were to report to the AID/Belize Principal Officer. One could conclude that the Deputy Project Manager was to

report to the Roads Project Manager. Yet, while providing technical advice to certain host government bridge supervisors, the untitled seventh contractor did not have a designated reporting responsibility. Also, it was not clear whether there was a contract Team Leader; according to his contract the Roads Project Manager was not responsible for the Bridges component of the project.

In reality, the Roads Project Manager attempted to function as contract team leader as well as AID/Belize project officer for the project. What resulted was resistance to the Roads Project Manager by certain of the personal services contractors who found it advantageous to communicate and deal directly with the AID/Belize Principal Officer. The situation among the seven contractors deteriorated to a level where the second senior contractor advised us that there was poor communication from "top to bottom," that there was a large amount of friction and that the two top-ranked contractors had not talked to one another for two years. He recommended that a contract for the planned Phase II of the project should be awarded to a firm.

The problem was exacerbated by the paucity of direct-hire project officers. The Principal Officer maintained AID/Belize was severely understaffed from its inception until April 1985. It was established in January 1983 and operated with a staff of two U.S. direct-hire officers. From December 1983 to April 1985 AID/Belize operated with a staff of five, two of which were U.S. direct-hire officials. Subsequent to April 1985 staffing increased to about 30, including 6 U.S. direct-hires. At the time the seven project contractors were mobilized, there were only two U.S. direct-hires in AID/Belize who had the authority to make management decisions involving the use of AID funds. (The third country nationals and personal services contractors did not have this authority.)

However, the AID/Belize Principal Officer did not change the reporting responsibilities of the seven project contractors when the Agriculture Development Officer (ADO) arrived at post. The contractors continued to deal directly with the AID/Belize Principal Officer on project-related matters. Obviously, this added tension between the ADO, the project contractors and the Principal Officer. Management decisions, communications flow and correspondence circumvented the ADO and therefore short-circuited attempts to effectively monitor the project by the designated project officer.

Procurement Planning - According to AID Handbook 3, procurement planning is a key component of project implementation planning. Procurement planning includes the designation of responsibilities as well as the establishment of transportation and a logistics control system. Through the U.S. Government's Excess Property Program, AID/Belize procured 54 bridges from Europe for the Rural Roads and Bridges Project No. 505-0007 at an estimated cost of about \$350,000. It was envisioned that the Government of Belize would be able to erect the bridges on abutments based on U.S. specifications. But, soil quality and content, humidity and the extremely rainy weather conditions in AID/Belize necessitated the construction of sturdier, more permanent-type bridge abutments. Consequently, only 3 of 54 bridges had been constructed, the remaining bridge components lay idle and deteriorating as illustrated in Exhibit 3.

AID/Belize thought that the problem relative to bridge erection was not directly related to either planning or to the technical aspect of the construction of bridge abutments. They said that the real problem lay in the shifting of bridge priorities which had resulted from a (1984) change in government administration. They added that planning aspects with the previous administration were intense and that there was very deep involvement by the current administration on the project. We held interviews with the current Minister of Works and two predecessors. These officials advised us that the MOW had been bypassed on matters of project planning and that communications between AID/Belize and the MOW needed to be improved. The consensus was that the Office of the MOW had been used by AID/Belize only to obtain needed signatures. For example, we were advised that the MOW did not participate in plans to procure equipment and spare parts for the project, the MOW only certified memoranda that had already been prepared in AID/Belize. They also advised that their warnings concerning construction of bridge abutments were not heeded.

In conclusion, it is AID policy to involve the host government in matters of project planning, direction and implementation. AID/Belize needs to resolve the concerns expressed by high Government of Belize officials. Basic AID procurement procedures had not been used by AID/Belize. There was insufficient evidence to support management decisions for hundreds of thousands of dollars in procurement, and the use of non-competitive bidding practices resulted in payments for commodities at excessive prices. Moreover, AID/Belize did not have ready access to a qualified procurement officer. Two of AID's procurement officers are stationed in the neighboring countries of Guatemala and Honduras. AID/Belize and the Bureau for Latin America and the Caribbean need to arrange for the temporary duty (TDY) services of one of these.

#### Management Comments

Pages 11 to 29 of Appendix 1 contain AID/Belize's objections to the audit finding. Basically, they thought that the specific examples provided by audit were not sufficient to demonstrate that the universe of AID/Belize procurement practices were ineffective. They also pointed out that major procurement responsibility for the Roads and Bridges project was delegated to AID/Washington in the project paper, and that off-shore commodity procurement was made by the Government of Belize, assisted by AID/Belize. AID/Belize accepted the principle of the audit recommendation. They noted that a Regional Commodity Management Officer would assist AID/Belize in the future and that the status of the personal services contracting team would be addressed in the design for the next phase of the Roads and Bridges project.

#### Office of Inspector General Comments

The examples cited herein are only a few of several problems with AID/Belize's procurement practices. In addition to the shortfalls noted by the AID Commodity Management Officer discussed earlier in this section, on March 12, 1987 the Regional Contracting Officer advised that his contracting authorities had been circumvented, that there was no

competence in AID/Belize to perform such procurement, that there had been a litany of errors resulting from AID/Belize attempts to do its own procurement, and, at present, AID/Belize's incumbent procurement specialist could not perform complex institutional technical assistance procurement. The Regional Contracting Officer said that AID/Belize's incumbent procurement specialist would, in time, develop the necessary capacity if continued logistic support and training are provided. These conclusions further support the audit finding. Part a) of Recommendation No. 2 has been modified to include formal designation of a qualified procurement officer to assist AID/Belize, the Commodity Management Officer referred to by AID/Belize has provided expertise only on an ad hoc, invitational basis. All parts of Recommendation No. 2 will remain open pending completion of management actions.

### 3. AID/Belize Inventory Controls Were Inadequate

Inventory control entails coordination and supervision of the supply, storage, distribution, and recording of materials to maintain quantities adequate for current needs without excessive oversupply or loss. AID/Belize's inventory controls were inadequate to safeguard its non-expendable and expendable property. In addition, AID/Belize did not use the Government of Belize's Ministry of Works (MOW) equipment inventory control system for spare parts procured for the Roads and Bridges project. The non-expendable and expendable property was not being properly safeguarded due to ineffective management practices and the lack of written guidance on the establishment and recording of materials. Based on AID/Washington advice, AID/Belize reversed the management plans calling for the MOW to manage the procurement and inventory for the Roads and Bridges project because it considered the MOW incapable of handling the task. Consequently, AID/Belize's non-expendable and expendable property was not being safeguarded from waste and abuse. As a result of not using the MOW's established inventory control system, over \$300,000 in project-financed Caterpillar and Ford spare parts were commingled with the inventory of a local for-profit Caterpillar dealership, and at least \$50,000 in project-financed spare parts were issued to unidentified individuals.

#### Recommendation No. 3

We recommend that AID/Belize:

- a) provide written guidance on the establishment and implementation of internal control procedures to safeguard AID/Belize's expendable and non-expendable property, and make a physical inventory of all non-expendable and expendable property as a first step in setting up an adequate system;
- b) schedule and make, with the Government of Belize's Ministry of Works, an inventory of Caterpillar and Ford spare parts financed by Project No. 505-0007 located at the CIMCOL warehouse in Belize City, Belize, value the inventory, in coordination with the Ministry of Works, to determine the extent of losses, and transfer the inventory on-hand, and associated records, to the Ministry of Works;
- c) ensure that a system providing for periodic inventory reviews is established that includes end-use verification practices; and
- d) ensure that before the project-financed Caterpillar and Ford spare parts are transferred from the private firm's warehouse in Belize City to the Ministry of Works' main depot warehouse in Belmopan that,
  - i) AID/Belize project officials verify that the Ministry of Works has obtained additional storage hardware such as inventory bins, shelves, and drawers to properly organize, segregate, account for, and control the transferred-in inventory,
  - ii) Ministry of Works warehouse personnel receive a refresher course regarding appropriate AID accounting, inventory, and commodity control procedures.

## Discussion

Inventory control entails coordination and supervision of the supply, storage, distribution, and recording of materials to maintain quantities adequate for current needs without excessive oversupply or loss. AID/Belize did not adequately control its in-house inventory nor permit the host government to manage its own inventory under an AID project.

Non-expendable/Expendable Property - Internal controls in place were inadequate to safeguard property. For example in testing the adequacy of AID/Belize's internal controls over non-expendable property, the inventory cards for 41 project and 13 operating expense funded air conditioners, and for 8 project and 4 operating expense funded refrigerators could not be traced back to receiving reports. Our physical inventory established that there were 160 air conditioners and not 148 as shown on AID/Belize's composite air conditioner inventory card.

Internal controls over expendable property were also inadequate. Although acquisitions forms were to be presented to the expendable clerk prior to the issuance of expendables, in many instances, this internal control procedure was bypassed. Additionally, the expendable inventory control card system was started only in August 1986. Moreover, the receiving reports for non-expendables and expendables were commingled.

The situations cited were due to ineffective management practices and the lack of written guidance on the establishment and implementation of an adequate internal control system. Due to inadequate internal controls, AID/Belize's non-expendable and expendable property was not being safeguarded from waste and abuse.

AID-Financed Spare Parts Were Commingled With the Inventory of a Private For-Profit Firm - AID/Belize did not use the Government of Belize's Ministry of Works (MOW) equipment management system to store and issue Caterpillar and Ford spare parts procured for the Roads and Bridges Project No. 505-0007. The project paper, as well as AID/Belize's first payment verification assessment, concluded that the MOW had the management capability with oversight by the Agency. But, AID officials and advisors unilaterally reversed the plans calling for the MOW to manage the inventory. Instead, they determined that a private for-profit firm (CEMOL) would receive, manage, maintain and distribute the inventory for these project-funded Caterpillar and Ford spare parts. The for-profit firm sold Caterpillar parts, and Ford was the predominant U.S. vehicle imported into Belize. As a result of this arrangement, over \$300,000 in project-financed Caterpillar and Ford spare parts were commingled with the inventory of a local Caterpillar dealership and at least \$50,000 in project financed spare parts was issued to unidentified individuals (see Exhibit 4). Finally, AID/Belize officials did not fully implement the necessary corrective actions recommended by a USAID/Honduras Financial Analyst Team in 1985 to ensure better control and accountability over project spare parts. As a result, the MOW was denied the opportunity to manage its own inventory, could not perform an end-use verification of spare parts used under the project, and therefore could not ensure proper usage of the parts.

An AID/Belize official stated that a since-retired AID Engineer on TDY to Belize made the original recommendation to store the spare parts at a private firm's warehouse in a project feasibility study. There was no written evidence of this recommendation or of the AID Engineer's project feasibility study which allegedly stated that the MOW was incapable of storing and safeguarding the spare parts.

The private firm's warehouse personnel advised us that due to the warehouse's limited floor inventory space, project spare parts were commingled with the private firm's inventory and warehouse personnel could not determine if a project-financed part had been sold as private stock. Many of the spare parts that were issued to unidentified personnel were for items with high commercial demand in the marketplace (oil filters, tires and grader cutting edges). Also at the time of audit, 58 spare parts issuances had been received by individuals without evidence of justification. An additional eight spare parts issuances were received by individuals who did not identify themselves. In other words, the issuance slips were not signed by the individual who received the spare parts. This count may not be all-inclusive since a master list was not kept.

The private firm stored the inventory in its warehouse on a "fee-gratis" basis. The firm's assistant general manager advised us that the firm agreed to store the inventory in its warehouse free of storage and handling charges in order to cement relations with AID/Belize, and with the host government for future business deals. The firm's assistant general manager and chief stock clerk could think of no good reason why the Ford spare parts were stored at the warehouse. Finally, no legal contractual agreement existed between CEMCOL, the MOW and AID/Belize. Some kind of consignment contract stipulating legal ownership, rights, and recourse over the inventory in case of inappropriate sale, unauthorized disposition, or pilferage of the inventory would have been appropriate under the circumstances.

Two years ago, AID/Belize was made aware of this untenable situation but has yet to take effective corrective actions. A USAID/Honduras Financial Analyst Team reviewed the private firm's inventory control system over the project-financed spare part inventory and identified quantity and price discrepancies. (The review did not identify, however, the unauthorized issues of Caterpillar and Ford spare parts that had occurred in 1984 and 1985.) On March 29, 1985 AID/Belize agreed to implement several recommendations that were made by the USAID/Honduras team to ensure better accountability and inventory control over the Caterpillar and Ford spare parts. As of March 20, 1987, the date of our review of the inventory, most of the necessary corrections had not taken place. In addition, the private firm's chief stock clerk stated that no one from AID/Belize reviewed the firm's inventory control system prior to delivery of the MOW's spare parts to the firm's warehouse, and that AID/Belize personnel performed no physical inventory counts of the spare part inventory as recommended by the USAID/Honduras Financial Analyst Team. In fact the ranking personal services contractor (PSC) for the project stated that AID/Belize relied on the private firm to perform the monthly inventories. Although the contractor received a copy of the monthly

inventory listing, the AID/Belize project officer responsible for the project was not provided copies.

Since the MOW's equipment management system was not used, end-use verifications of spare parts could not be performed by MOW personnel, and hundreds of thousands of dollars in spare parts had not been readily accessible to the MOW for effective project use. The commingled status of these spare parts with similar commodities being sold for profit is unacceptable.

#### Management Comments

Pages 29 through 36 of Appendix 1 contain AID/Belize's responses to the audit finding and recommendation. These include a list of undocumented corrective actions reportedly made in response to the USAID/Honduras analysis as well as responses to the audit presentation by CEMCOL's President and chief stock clerk. Also, statements were quoted by two of six MOW District Superintendents in support of current project inventory arrangements with CEMCOL, and a statement of justification for the inventory arrangement was provided by the retired LAC engineer. AID/Belize, however, agreed that the use of CEMCOL to handle spare part control and issuance was not the ideal situation. AID/Belize stated that written guidance outlining procedures and internal control requirements governing expendable and non-expendable property had been prepared effective May 19, 1987, and a physical inventory of such property had been recently completed. AID/Belize further quoted a September 18, 1984 offer from CEMCOL to support its contention that there was a partial contractual arrangement with CEMCOL, and responded that it had inventoried the project-financed Ford spares located at CEMCOL. There were no indicators that the host government participated in the inventory, as recommended.

#### Office of Inspector General Comments

Part a) of Recommendation No. 3 has been resolved and may be closed upon receipt of AID/Belize's written guidance of May 19, 1987. Parts b) and c) of the recommendation remain open pending the completion of management actions. AID/Belize should be cognizant that undocumented spot checks, while useful as a monitoring device, are not a substitute for making planned, periodic and coordinated inventories. Part d) of the recommendation, too, remains open pending completion of management actions.

#### 4. Inventory Controls for \$200,000 in Shop Tools under Project No. 505-0007 Were Inadequate

An objective of AID/Belize's Roads and Bridges Project No. 505-0007 was to establish improved management and control systems within the Government of Belize's Ministry of Works (MOW). AID/Belize depended on seven U.S. contractors having personal services contracts (PSCs) to provide the needed technical assistance and to train MOW employees. The contract team spearheaded the procurement of about \$200,000 in shop tools for the MOW. Inherent in this procurement was the responsibility to establish effective plans and controls to ensure that the tools were adequately accounted for, effectively managed and used for the purposes intended. But, basic plans and controls established by the contractors on the MOW's behalf were not used. In fact, the system used to receive, inventory and distribute the shop tools was such that an environment was created where diversions could not be detected. As a result, tens of thousands of dollars in tools were unduly exposed to waste and abuse. A responsible contractor advised us that he believed that 30 percent of the shop tools had been diverted or had disappeared.

#### Recommendation No. 4

We recommend that AID/Belize in conjunction with the Ministry of Works, Government of Belize:

- a) make a complete inventory of the shop tools procured under the Roads and Bridges Project No. 505-0007;
- b) reconcile the physical inventory to procurement documents and document the losses; and
- c) determine responsibility for any losses and issue bills of collection accordingly.

#### Discussion

Shop tools consisted of wrenches, ratchets, heavy duty jacks, tool sets, cranes and similar items. Goods arriving in Belize for the MOW were first received at a warehouse located in Belize City called the "Unallocated Stores" warehouse. The unallocated stores facility was the U.S. equivalent of a customs clearance warehouse, however all Ministries were able to make purchases directly from this facility. The MOW's central warehouse was located in Belmopan, Belize, 49 miles from Belize City. Transfers from the unallocated stores facility to the central warehouse were made by truck. Therefore, it was important that commodity arrivals be verified prior to the point of transfer. Customs clearance personnel were available to assist MOW personnel in commodity verifications, and certain of the U.S. contractors were also available to provide assistance.

A plan to distribute the shop tools was to have been prepared by the U.S. contractors. Such a plan was provided by the senior contractor to the MOW on February 11, 1985. There was no evidence that the MOW approved the distribution plan to which the U.S. contractors were also included as individual recipients of shop tools.

MOW warehouse personnel advised us that when the tools arrived they had been instructed not to use their normal system of making an inventory, comparing the inventory count to procurement and shipping documents, and reconciling the count because the shop tools were consigned to AID/Belize rather than the MOW, and the U.S. contractors would make the inventory. In short, the host government's system of inventory and internal controls was not used. Thus, there were several gaps in the system where undetected pilferage could have taken place. On March 11, 1986 -- 13 months after the shop tools were reported as received -- the senior U.S. contractor instructed another contract member to make "...a physical check and meaningful reconciliation of...." all shop tools issued to the MOW. The subsequent physical inventory did not account for or identify the location of three truck cranes as well as numerous other inventory items listed on the purchase order. The responsible contractor thought that 30 percent of the shop tools had been diverted or had "disappeared."

Project management attributed the poor controls over the receipt, inventory and distribution of the shop tools to a number of causes. The AID/Belize Representative, Project Officer, and senior U.S. contractor stated that the project paper did not address the area of inventory control and record-keeping, and did not provide a framework for the receipt and accountability for the shop tools. The senior contractor added that AID/Belize had not issued a Project Implementation Letter (PIL) communicating to the MOW what acceptable inventory procedures entailed.

To ensure that the remaining shop tool inventory is safeguarded and effectively used, a complete inventory must be made by AID/Belize and the MOW. U.S. contractors that have shop tools should return such to the MOW so that they can be effectively accounted for and used on the project.

#### Management Comments

Pages 37 to 40 of Appendix 1 contain AID/Belize's response to the audit finding and recommendation. Key within the response is AID/Belize's claim that a series of meetings were held to discuss the proposed distribution plan for the shop tools and that the Minister of Works agreed in principle when he issued an August 27, 1985 letter that transmitted the final distribution listing. AID/Belize also responded that it made an inventory, as recommended, and accounted for all but \$4,439 in shop tools, representing 2.2 percent of the total procurement. Finally, AID/Belize noted that it had discussed the fact with the auditors that the project paper did not "provide for direct financing of a component" within the project that would specifically establish an inventory system solely for the control and distribution of shop tools. Their observations as stated in the Discussion section were meant to refer to spare parts rather than to shop tools.

#### Office of Inspector General Comments

The series of meetings on the distribution plan were not documented in AID/Belize's official file. Moreover, the August 27, 1985 letter used by AID/Belize obviously demonstrates that the tools were already distributed

in order of preference and necessity as determined by the MOW. Therefore, the document was after-the-fact. On balance, AID/Belize has generally concurred with the finding and has initiated effective management actions to meet the intent of the recommendation. Parts a) and b) of Recommendation No. 4 are resolved and may be closed upon receipt of evidence of inventory results. Part c) of Recommendation No. 4 will remain open until satisfactorily resolved.

## 5. Accounting Practices and Internal Controls of AID/Belize Needed To Be Strengthened

AID/Belize had not installed an accounting system because the LAC Bureau had designated USAID/Honduras as the accounting station for AID/Belize. But the AID/Belize Controller's Office functioned as a payment station, and duties of that Office included a requirement that informal accounting records be maintained. They had not been established at AID/Belize because it was deemed a duplication of effort with USAID/Honduras. Yet, they were needed to enable AID/Belize to reconcile fiscal data to USAID/Honduras' records. Since these records had not been established, there was no evidence of periodic reconciliations. Controller employees could not perform all of the tasks for which they were hired, and the AID/Belize Principal Officer was not able to obtain from his Controller's Office accurate and timely fiscal information needed for decision-making purposes. As a result, vulnerabilities within AID/Belize's \$53 million portfolio were not readily identified, acted upon and corrected.

### Recommendation No. 5

We recommend that AID/Belize:

- a) create informal accounting records; and
- b) install a system of periodic reconciliations with USAID/Honduras accounting records maintained on AID/Belize's behalf.

### Discussion

The AID/Belize Controller advised us that an accounting system had not been installed. The LAC Bureau had designated USAID/Honduras as the accounting station for AID/Belize, which created problems that were amplified by distance and by poor telephone communications between Belize and Honduras. The AID/Belize computer installation had not been used to establish informal accounting records.

Controller Staffing - The AID/Belize Controller's Office consisted of six employees and one secretary. An Office Information Systems Management/Accountant had been hired, one of the responsibilities of this employee was to maintain informal accounting records and controls for AID/Belize's operating expense and project funds; and, provide the Controller with continuous monitoring on the rate of expenditures by budget line item and special analysis as requested. A Financial Analyst was to participate in planning, installing and maintaining the "accounting systems," and records and controls of AID/Belize with respect to certain dollar appropriations and foreign currencies. However, the Financial Analyst was heavily involved in voucher review and analysis, and the major function of the Systems Manager/Accountant was to provide support to computer users rather than to maintain informal accounting records and controls. Because the duties of these two key personnel were concentrated in other areas, the establishment of informal records, as a minimum, was never accomplished.

Need for Informal Accounting Records - The AID/Belize Controller's Office functioned as a payment station, that is, disbursements were made, a certifying officer was on board, and therefore accountability reporting was required. This situation, coupled with only limited access to the designated accounting station, dictated that informal accounting records be maintained in order to establish internal controls, provide AID/Belize program managers timely and accurate fiscal data with which to monitor their projects, and to make periodic internal financial reports to the AID/Belize Principal Officer to assist him to manage his \$53 million portfolio. The requirement for informal records was used to justify hiring certain Controller employees. Moreover, the use of informal records would have enabled AID/Belize Controller personnel to make periodic reconciliations with reports provided by its USAID/Honduras accounting station.

Reporting - The lack of these records, and the absence of attendant reconciliations by AID/Belize to USAID/Honduras accounting records, evidenced weak internal controls and resulted in erroneous reporting to senior Agency management. To illustrate, the status of commitments for three projects was erroneously reported by AID/Belize in its September 1986 semiannual report to AID/Washington:

- \$1,777,000 in commitments for Project No. 505-0005 were reported, but only \$977,000 had been committed -- a difference of \$800,000.
- \$11,500,000 in commitments for Project No. 505-0012 were reported while \$11,970,000 had actually been committed. The reporting was understated by \$470,000.
- \$130,000 in commitments were reported to AID/Washington for Project No. 505-0027 while only \$50,000 had actually been committed. The reporting overstated commitments by \$80,000.

Concurrently, expenditures were erroneously reported under four projects:

- \$75,000 in cumulative expenditures were reported for Project No. 505-0010 while only \$55,000 in expenditures had actually been made, an overstatement of \$20,000.
- \$172,000 in cumulative expenditures were reported for Project No. 505-0011 while only \$142,000 in expenditures had actually been made, an overstatement of \$30,000.
- \$11,796,000 in cumulative expenditures were reported for Project No. 505-0012 while only \$10,296,000 in expenditures had actually been made, an overstatement of \$1,500,000.
- \$28,000 in cumulative expenditures were reported for Project No. 505-0027 while actual expenditures were nil.

To sum up, the absence of informal records and internal control has resulted in misstatements of fact. As AID/Belize's assistance grows, attendant safeguards must be strengthened or discrepancies will continue to increase.

### Management Comments

AID/Belize concurred with the finding and recommendation. They had initiated corrective actions including broader use of its Financial Analysts' capabilities, arrangements to establish memorandum accounting records, and requests to USAID/Honduras for periodic fiscal reports. AID/Belize responded that the errors in the semiannual reporting were transactions which were nearing execution, or transactions that had not yet been posted by USAID/Honduras due to incomplete documentation. These were to be footnoted and explained in future semiannual reports.

### Office of Inspector General Comments

Recommendation No. 5 will remain open until AID/Belize establishes informal accounting records.

6. Accounting Practices and Internal Controls of Project Recipients Were Inadequate and Needed to be Reviewed

AID/Belize had not initiated reviews of its project recipients to determine if management, accounting and internal control practices were adequate. AID Handbook 13 prescribes procedures for making reviews of recipients of grants and cooperative agreements. Also, AID's Revised Payment Verification Guidelines advise that Controllers should utilize more frequently the services of competent public accounting firms in providing accounting and financial management technical services and in auditing host country contracts as well as designated direct contracts and grants. One of the responsibilities of an AID/Belize Financial Analyst was to make selected recipient reviews, but this employee's duties had been limited to voucher review and analysis. AID/Belize had not used public accounting because a contract had not yet been executed with a competent public accounting firm. Consequently, there was no assurance that resources were being used efficiently, effectively and for purposes intended. Our limited tests of two recipients resulted in the identification of \$6,638 in questioned or ineligible costs, the absence of accounting records to support expenditures for a \$200,000 grant, and execution of three agreements totaling \$4.2 million in obligations to an organization that had yet to be certified as an indigenous Private Voluntary Organization (PVO).

Recommendation No. 6

We recommend that AID/Belize:

- a) plan and initiate reviews of management, accounting and internal controls for AID-financed recipients located in Belize;
- b) collect about \$1,000 in ineligible entertainment expense charged by Pride, Incorporated under Project No. 505-0033;
- c) require the Belize Chamber of Commerce and Industry to reconstruct accounting records for the \$200,000 grant under Project No. 505-0025, review the reconstructed records, and collect ineligible, unsupported and non-traceable cost claims. Payments under active Projects No. 505-0020 and 505-0027 should be suspended until this process is complete;
- d) collect from the Belize Chamber of Commerce and Industry \$2,892 in ineligible costs identified under Projects No. 505-0020 and 505-0027, and negotiate \$2,593 in questioned costs identified under these projects; and
- e) complete, and document in the official file, AID's certification that the Belize Chamber of Commerce and Industry is an eligible indigenous Private Voluntary Organization, including notification to AID's Bureau for Food for Peace and Voluntary Assistance in accordance with AID Handbook 3.

## Discussion

During an internal control review of its system in fiscal year 1986, AID/Belize noted that it had not examined the financial management practices of some indigenous PVOs and, therefore, was not able to determine if adequate financial management procedures were in place. The report transmitting the results of the internal control review was dated October 24, 1986 and established a target date of June 30, 1987 to implement corrective actions. However, in March 1986 the responsible Financial Analyst had submitted to the AID/Belize Controller a work plan for the period April 1, 1986 through September 30, 1986 that contained a proposed schedule covering six problem projects and activities. Even though the internal evaluation function was part of the Financial Analyst's job description, actual day-to-day functions were limited to desk reviews and voucher analysis. At the time, AID/Belize was not at liberty to utilize the services of a qualified public accounting firm because only one such firm existed in Belize, and the execution of regional contracts for services to be provided by accounting firms was still in process. Nonetheless, had the Financial Analyst's work plan been implemented, problems with certain of the projects and with the Belize Chamber of Commerce and Industry already could have been identified and corrected. Our limited tests of two recipients resulted in the identification of weaknesses discussed below.

Pride, Incorporated - was the recipient of a \$350,000 grant for the Drug Awareness Program project No. 505-0033. The accounting system was in place but internal control practices were weak. During our review of supporting documents it became apparent that entertainment expenses were being charged to AID in contravention of the agreement and AID policy. Pride officials informed us that they were not aware that these expenses were ineligible for payment by AID. They added that AID/Belize had not reviewed their systems of accounting and internal controls. AID/Belize should have evaluated Pride's accounting system and internal controls as a condition to receiving the grant. AID/Belize has taken prompt corrective action by collecting from PRIDE \$962 in questioned costs, and by reviewing the recipient's accounting procedures and internal controls.

Belize Chamber of Commerce and Industry - was the recipient of three agreements totaling \$4.2 million in obligations under Projects No. 505-0020, 505-0025 and 505-0027. The first of these agreements (505-0025) was executed with the Chamber on June 13, 1984. During the audit it was determined that the Chamber was not certified in accordance with AID policy for indigenous PVOs because AID/Belize had not yet completed the certification of eligibility and notification process, nor had the Chamber's accounting system and internal controls been reviewed and deemed adequate by AID/Belize. The lack of oversight and continued lenient posture with the Chamber resulted in a situation where the Chamber did not install a basic accounting system until December 1986, more than two years after AID/Belize had made its first grant. Even then, the accountant posted certain of the costs for Projects No. 505-0020 and 505-0027 in error due to instructions from superiors, resulting in ineligible and questionable cost claims to AID. This undermined the accounting and internal control practices of the Chamber.

Our limited tests identified \$2,892 in ineligible costs and \$2,593 in questioned costs for the two projects.

The Chamber's ex-Treasurer was not able to furnish books and records for Project No. 505-0025. The ex-Treasurer was the responsible fiscal officer during the life of this project. Few records were on file at the Chamber; documentation obtained from his residence and furnished to us did not match billings made to AID/Belize. Since the Chamber's fiscal records for this project were not adequate, it could not be determined whether costs billed AID had actually been incurred. Therefore, all of the \$200,000 granted to the Chamber under this project was questionable.

As of December 31, 1986, there were 11 recipient organizations participating in 14 of AID/Belize's projects totaling \$7,506,500 in obligations. None of these organizations had been evaluated by AID/Belize to determine if their management, accounting and internal control practices were adequate.

AID/Belize concurred with this finding during the audit and initiated prompt corrective measures. They reviewed the accounting procedures and internal controls of the Chamber, reviewed the \$2,892 in ineligible costs and agreed that \$2,189 was ineligible, reviewed \$2,594 in questioned costs and arranged to deduct \$1,910 from the next voucher, assisted the Chamber in reconstructing the records for the \$200,000 grant, accounted for \$194,357 and arranged to deduct \$5,643 from the next voucher, and completed and reported to AID/Washington the Chamber's certification of eligibility as an indigenous PVO.

#### Management Comments

AID/Belize reported that all ineligible and unsupported costs had been deducted through offsets to subsequent voucher claims submitted by PRIDE, Inc. and the Belize Chamber of Commerce and Industry. These costs totaled \$10,704 in ineligible or unsupported claims. AID/Belize also responded that consideration was being given to hiring another Financial Analyst to assist in reviews of management, accounting and internal controls of AID-financed recipients located in Belize.

#### Office of Inspector General Comments

AID/Belize has initiated prompt, positive and effective actions to resolve the audit recommendation. Part a) of Recommendation No. 6 may be closed upon AID/Belize's submission of its plan (schedule) to review the AID-financed recipients located in Belize. Parts b) through e) may be closed upon AID/Belize's submission of corresponding liquidation vouchers, and Chamber certification and notification documents.

## 7. Controls Providing for Duty-Free Purchases of Gasoline Needed To Be Strengthened

Management and internal controls over duty-free purchases of gasoline from local vendors in Belize were not adequate, therefore the distribution of gasoline coupons to users was indiscriminate and piecemeal. Coupons were issued for official and for privately-owned vehicles, the only requirement was for users to present to the U.S. Embassy distribution station a picture ID card and to verbally provide the vehicle's license number. Effective management and internal controls would require an adequate distribution and accountability system. Since these features had not been established, coupons were subject to acquisition and use by unauthorized individuals. The cost of duty-free gasoline was about 90 cents a gallon (in local currency equivalents) while commercial prices were about \$1.50 per gallon.

### Recommendation No. 7

We recommend that AID/Belize:

- a) in consultation with the United States Embassy in Belize, establish a system for obtaining gasoline coupons in bulk quantities;
- b) devise a signature list and roster of individuals and vehicles eligible to use gasoline coupons to make purchases for official use, and establish a signature list and roster of individuals, their authorized dependents, and vehicles eligible to use gasoline coupons to make purchases for private use; and
- c) establish a system that segregates the distribution of gasoline coupons for official vehicles from those made for privately-owned vehicles.

### Discussion

The distribution of gasoline coupons by the U.S. Embassy on AID/Belize's behalf was indiscriminate, piecemeal and an administrative burden. There were few controls in evidence; for example, responsible U.S. Embassy employees advised us that:

- there was no limit on the number of gasoline coupons that would be issued to a user;
- the user needed only to show picture identification and verbally provide a vehicle license number;
- proof of the vehicle license number and justification for the need for coupons were not required, thus there was no verification;
- there was no roster or signature list of authorized AID users, often causing confusion as to whether or not the individual was authorized to receive gasoline coupons; and

-- attempts to verify the eligibility of potential users was time-consuming in the absence of a roster and signature list.

Moreover, access to gasoline coupons extended to certain of the AID-financed contractors, grantees and private voluntary organizations (PVOs). AID/Belize provided administrative services on their behalf by billing and making collections from these recipients, and by making payment to the gasoline vendors. AID/Belize was providing funding to these organizations to implement programs. The funding included (or should have included) adequate monies for direct and indirect (i.e., administrative) costs. However, gasoline vendors refused to deal directly with these AID-financed recipients.

The U.S. Embassy in Belize also distributed gasoline coupons to users of both official and private vehicles. At the time of a gasoline purchase, an honor system was used to record whether or not the coupon was for private or official use. Based on our review, the majority of users were indicating that gasoline purchases were for official use even though several purchases were made on weekends and holidays. For one subcontractor, 50 of the 55 used coupons reviewed were for official use, and the other 5 were blank. Users paid for gas if it were used for personal business; it was charged to AID for official business.

The result was uncontrolled use and possible abuse of AID's duty free privilege which saved the user the equivalent of \$.60 per gallon on gasoline. The system did not ensure that the government was not charged for non-business gasoline expenses.

Effective management and controls would dictate that a signature listing and a roster of authorized users and related vehicles be established, that gasoline coupons be procured by AID/Belize in bulk quantities, and that AID/Belize's General Services Officer (GSO) establish an adequate distribution, collection and accountability system.

U.S. Embassy employees implementing the gasoline coupon distribution program agreed that the establishment of systems by AID/Belize to receive, distribute and control gasoline coupons would be a significant operational improvement.

#### Management Comments

AID/Belize concurred with the finding and had initiated a dialogue with the local gasoline vendor to arrange for vendor-to-AID/Belize bulk coupon booklet distribution, thereby eliminating several of the cumbersome administrative procedures that are currently used.

#### Office of Inspector General Comments

Recommendation No. 7 will remain open until management actions are completed.

## 8. Administrative Procedures of AID/Belize Needed To Be Improved

Administration is the act of performing duties or executing affairs as distinguished from policy-making. It is governed by a set of given rules that may include laws, regulations and policies. The administrative procedures of AID/Belize were weak and needed to be improved due to several factors. Most of the staff were not familiar with AID policies and operations. More importantly, responsible senior management of AID/Belize had not effectively disseminated to the staff pertinent AID policies on preferred means of communicating, monitoring, record keeping, and office responsibilities. As a result, AID/Belize's staff were confused in their responsibilities, and duties were not carried out in an efficient manner. In order to remedy this situation, beginning June 30, 1987 AID/Belize was planning to develop a set of Mission Orders or a Mission Operations Manual. In our opinion, AID/Belize needs to immediately issue Mission Orders on Project Implementation Letters (PILs), trip reports, conditions precedent, files management, and office responsibilities. In addition, policy memoranda in existence need to be categorized and centrally controlled.

### Recommendation No. 8

We recommend that AID/Belize:

- a) issue, in Mission Order format, working instructions and criteria on Project Implementation Letters, trip reports, conditions precedent, files management, and office responsibilities;
- b) review existing policy memoranda for relevance and re-issue in Mission Order format those policy memoranda that remain pertinent; and
- c) establish a centralized focal point responsible for the management of Mission Orders. This centralized entity should be held responsible for instituting a sequential numbering system for Mission Orders, and for controlling Mission Order issuances, cancellations or other modifications.

### Discussion

It was especially important for AID/Belize Management to provide effective administrative guidance because of the inexperience of the staff. Only 6 of the staff of 43 were U.S. direct-hire, most were host country or third-country nationals or dependents who were not familiar with AID policies and the way it does business. Secondly, the majority of AID/Belize's staff had been hired since April 1985, and for most it was their first experience with AID.

It is AID's policy to manage resources and implement programs in an efficient and economical fashion. Basic policies that form overall guidance for effective administration are contained in the AID Handbooks, and AID Missions in the field issue specific guidance fitted to country conditions and management styles. These rules provide guidance for officials and subordinates to carry out their duties in an economical and efficient manner. They also form the bases of understanding by which

parties to a given activity reach stated objectives. Guidelines have historically been issued in Mission Order format. Normally Mission Orders are sequentially numbered, referenced to an overriding policy or regulation (e.g., the AID Handbook), and centrally controlled in order to track issuances, cancellations and modifications thereto.

At AID/Belize, specific guidelines that had been developed consisted of a combination of formats, the majority of which were issued on U.S. Government Memorandum Optional Form 10. Fifteen of the 22 AID/Belize instructions were disseminated to employees in this fashion. According to AID Handbook 21, the memorandum format (Form 10) is the principal form of correspondence used by the Agency in that it is generally used for informal correspondence within and between Federal employees. Therefore, the U.S. Government memorandum was not the appropriate vehicle to disseminate the formalized policies and procedures of AID/Belize to its employees.

The 22 policy and procedure statements of AID/Belize were not centrally controlled, that is, several of the Offices issued guidance on a unilateral basis without inputs or clearances by other affected units. For example, a July 10, 1985 memorandum on Overtime was questioned by an AID/Belize staff member as follows: "1. Who drafted this? 2. Since it mentions Controller's Office for funding - who cleared the draft?"

The combination of inexperienced staff, informal memorandum formats and unilateral and decentralized issuances of policies and procedures by AID/Belize Offices caused confusion among employees and resulted in inefficient and ineffective administration.

Inadequate Use of Project Implementation Letters (PILs) - This defect was most pronounced in AID/Belize's Rural Roads and Bridges Project No. 505-0007. In order to maintain smooth and uninterrupted project implementation, about \$200,000 in spare parts were required so that heavy equipment, machinery and vehicles could be quickly repaired and effectively used. The project agreement stated that a PIL was to be issued containing appropriate guidance to the executing entity prior to the initiation of a particular AID-financed procurement. However, AID/Belize did not issue PILs to the executing entity (Ministry of Works) providing guidelines and authorization to proceed with spare parts procurement. AID/Belize pointed out that it made substantial use of PILs in other areas and cited examples where 95 PILs had been issued for 4 of its projects.

Trip Reports - Since May 1985 the AID/Belize Principal Officer had issued one "USAID Order" and three Administrative Notices concerning vehicle usage. All were in force, creating confusion by employees as to which policies to follow. The policies and procedures disseminated in these four memoranda needed to be consolidated under one Mission Order. Evidence that these procedures were ineffectively administered was found during our review of trip reports supporting the utilization of five U.S. Government-titled vehicles. There were either no trip reports or no annotations in the trip reports to substantiate about 19,000 miles of vehicle use. At 20.5 cents a mile, AID/Belize could not account for an estimated \$3,895.

Conditions Precedent - These were violated by AID/Belize for the Increased Productivity Through Better Health Project No. 505-0018. One condition precedent called for a detailed time-phased action plan for malaria control, another stipulated that a similar plan be submitted for water supply and sanitation. It is AID policy not to disburse funds until conditions precedent are satisfied. AID/Belize had not reiterated this policy in a Mission Order nor installed a monitoring system to ensure the fulfillment of conditions precedent prior to the disbursement of funds. Due to concerns that the executing entity could not be kept in-country, AID/Belize disbursed \$124,874 in project funding to the executing entity prior to the time the aforementioned conditions precedent were satisfied. While specific fund control regulations were not violated, the unilateral actions of AID/Belize circumvented AID policy designed to ensure that AID funds are used for the purposes intended. AID/Belize responded that this example was an isolated instance rather than an overall administrative weakness.

Files Management - This too was generally inadequate at AID/Belize. There was no Mission Order on this subject and the concepts set forth in AID Handbook 21 were generally ignored. The majority of the classified files contained unclassified documentation, the files were not set up in accordance with Part III of AID Handbook 21. Poor files administration carried over to the project side as well. To illustrate, the official files for the Roads and Bridges Project No. 505-0007 did not contain the majority of documents critical to the project. Responsible project management had not even seen basic information, such as monthly inventory reports on \$200,000 in spare parts, needed to effectively monitor the project. These had been accumulated by the senior U.S. contractor who maintained an office located in the AID/Belize building. The contractor also communicated matters on official Agency letterhead as if he were the authorized U.S. direct-hire project officer. These included the signing of purchase orders and instructions to send a project vehicle to Mexico for front-end alignment. During the audit, it was established that the files that had been accumulated by the contractor were the only reliable source of information for the project. Had these files not been accumulated, AID/Belize would have had essentially no records on the project.

Office Responsibilities - These were not spelled out and disseminated to employees in a Mission Order. It is normal practice for AID Missions to define the responsibilities of each Office so that employees are cognizant of the objectives, procedures and parameters required in order to effectively implement their daily tasks. For example, USAID/Honduras had issued Mission Orders that clearly defined the policies, procedures and responsibilities of each of its 10 key Offices. At AID/Belize, several key positions were held by other than U.S. direct hires who were not familiar with AID policies and regulations. As discussed in Finding No. 2, AID/Belize's procurement practices were ineffective. Clearly defined AID/Belize policy and procedure might have enabled the designated procurement officer to effectively administer procurement actions.

To sum up, the seemingly minor function of disseminating and implementing controls over policies and procedures had not been effectively

accomplished at AID/Belize, resulting in the inefficient administration of programs and activities.

Management Comments

AID/Belize concurred with the audit recommendation but took issue with the use of specific examples to portray a general condition. AID/Belize objected to being compared with USAID/Honduras, and disagreed with certain conclusions for the Roads and Bridges project. Nonetheless, AID/Belize had recently contracted with an AID retiree to assist in Mission Order development and standardization.

Office of Inspector General Comments

Recommendation No. 8 will remain in open status until management actions are satisfactorily completed.

## 9. Interest Income Needed to be Refunded

Since October 1986 the Belize Central Bank has had on deposit in an interest bearing account \$687,500 in AID funds provided through the Belize Commercial Bank Discount Fund Project No. 505-0005. These funds had been commingled in one of the Bank's major accounts (No. 7140064) at the Federal Reserve Bank of New York. U.S. Government regulations require that interest earned on undisbursed funds be recovered and returned to the U.S. Treasury. The project also required that books, records and supporting documents were to be made available to authorized representatives of the U.S. Government. But, Belize Central Bank authorities denied our requests to review the account to determine the interest income due the U.S. Government. Therefore, using 5.5 percent, we have estimated the recovery due the U.S. Government, \$21,931.

### Recommendation No. 9

We recommend that AID/Belize recover an estimated \$21,931 in interest earned by the Belize Central Bank on \$687,500 in funds provided by the Belize Commercial Bank Discount Fund Project No. 505-0005 since October 1986.

### Discussion

The project required that books, records and supporting documents were to be made available to authorized representatives of the U.S. Government. However, key officers of the Belize Central Bank denied our requests to review an account containing \$687,500 in AID funds. Therefore, the matter was taken up with AID/Belize and various AID Legal Counsels. On May 27, 1987 a General Counsel, Bureau for Latin America and the Caribbean (GC/LAC) issued a "no opinion" regarding the propriety of collecting interest earned on AID funds in the account. However, the GC/LAC supported AID's right in making an audit of the Belize Central Bank's account.

On June 19, 1987 a Legal Counsel, Office of the Inspector General (IG/LC) issued an opinion that investment of the loan disbursement in Treasury notes was not a project purpose and the interest should be returned.

In the interim, AID/Belize had initiated effective and persuasive actions with officials of the Central Bank. AID/Belize responded:

...In a meeting held in mid-April, 1987 with the Governor of the Central Bank and the Financial Secretary, the AID Representative recommended that Central Bank calculate the interest earned on the undisbursed funds. This recommendation was accepted. USAID has followed up with PII No. 36, formally requesting the Central Bank to submit its calculation for approval by USAID.

Interest has been earned on a declining balance since funds were disbursed in mid-November, 1986. For example, a Central Bank monthly status report dated March 2, indicated that \$579,500 remained undisbursed on that date and the same report dated May 4, 1987 indicated that \$204,500 remained undisbursed in early May. In addition, Central Bank believes that the amount to be paid to the U.S. Government should take into account the 2% interest due on the disbursed loan funds. The interest to apply would be the difference between the U.S. Treasury rate and the 2%.

We request that (the Recommendation) be modified to take the above factors into account, i.e., that AID/Belize recover interest earned on the declining balance, with interest calculated as the difference between the U.S. Treasury rate and 2%.

#### Management Comments

AID/Belize reiterated its concurrence with the audit finding and recommendation in its formal response to the draft audit report. AID/Belize intended to seek confirmation regarding appropriate methods of calculating the interest refund.

#### Office of Inspector General Comments

AID/Belize has initiated effective actions to meet the intent of Recommendation No. 9. However, existing U.S. legislation as it pertains to interest recoveries can not be ignored. The 2 percent referred to by AID/Belize represents a Government of Belize contractual repayment obligation applicable to loan disbursements. This obligation may not be offset, in whole or in part, against interest earnings that are rightfully due the U.S. Treasury. Therefore, total actual interest earned on the unauthorized investment of project funds must be refunded by the Government of Belize. Recommendation No. 9 remains in open status until management actions are completed.

## B. Compliance and Internal Control

Compliance and internal control exceptions listed herein were limited to the finding areas presented in this report.

### Compliance

There were four compliance exceptions. AID Delegations of Authority and the AIDAR established ceilings for the execution of grants to other than foreign governments, contracts, cooperative agreements, personal services contracts and operational program grants. Finding No. 1 demonstrated that the AID/Belize Principal Officer exceeded delegated contracting authorities in five instances for a cumulative amount of \$99,795 in obligations. Management plans included in a project paper concluded that the Government of Belize's Ministry of Works was capable of managing spare parts inventories. Finding No. 3 identified a reversal in established plans in that AID/Belize determined that a private, for-profit firm selling like items would manage the inventory. Accounting and internal control systems of AID recipients were to be reviewed to ensure adequacy in accounting for U.S. Government resources. Accounting records were to be maintained for review by the U.S. Comptroller General and its authorized agents. Finding No. 6 demonstrated that AID/Belize did not review accounting and internal control systems of AID recipients, and one organization did not maintain accounting records adequate to support expenditures for a \$200,000 grant. Finding No. 9 identified interest earned on funds that were not disbursed for project purposes. The interest earnings needed to be refunded to AID.

### Internal Control

There were six internal control exceptions. Finding No. 2 illustrated that poor AID/Belize procurement practices resulted in insufficient evidence to support management decisions for the acquisition of hundreds of thousands of dollars in goods and resources, and that higher prices were paid due to the lack of competition. Inventory controls for expendables, non-expendables, spare parts and shop tools were not adequate as discussed in Findings No. 3 and 4. Accounting practices and internal controls of AID/Belize and certain AID recipients needed to be improved. Findings No. 5 and 6 discussed these shortfalls. Finding No. 7 discussed weaknesses in management and internal controls for duty-free purchases of gasoline, and Finding No. 8 demonstrated that administrative procedures of AID/Belize were weak.

### C. Other Pertinent Matters

The training of Ministry of Works (MOW) personnel to increase the capability of the Government of Belize to build, maintain and protect its rural access road infrastructure was a primary purpose of the Rural Roads and Bridges Project No. 505-0007. For example, the project's Equipment Maintenance Component was designed to improve the MOW district-land equipment and maintenance operations through technical assistance and training of MOW personnel by project personal service contractors (PSC's) assigned to the project. However, the training program put in place and implemented by project PSC's was inadequate and deficient. Project PSC's spent too little of their time training MOW personnel, and instead performed unrelated tasks which should have been delegated to and accomplished by MOW personnel assigned to the project. At one point in the project, less than 10 percent of the roads specialist's time was spent on training. Besides inadequate personnel resources devoted to the training objectives, the training program was deficient and incomplete because it did not incorporate an accurate needs assessment that identified what skills MOW participants needed training in most. Also, no formal testing mechanism was used to measure and determine if the training provided was adequate and effective. The lack of focus placed on the training objective of the project was due to disagreement among AID/Belize project officials and project PSC's concerning what objective should be given the highest priority; road construction or training. AID/Belize's project officer believed that training should be given the higher priority, while the PSC's responsible for implementing the project believed that road mileage should be the highest priority, even though one month after the original project agreement completion date (PAC'D) only 55 percent of the programmed road mileage and 4 percent of the planned bridge construction had been completed. Attainment of the project's training objective was also impeded by AID/Belize officials' decision to store project Caterpillar and Ford spare parts at the warehouse of a private for profit firm rather than working through the MOW's equipment management system to further build on the training base that had been provided under a World Bank project. As a result of this arrangement, opportunities to gain experience in the equipment management field were provided to a private for-profit firm rather than to MOW equipment management personnel who were the intended project beneficiaries.

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES

PART III - EXHIBITS AND APPENDICES

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES



AID/Belize's two-story office building was erected in mid-December 1984.

118

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES



Prefabricated housing units were procured rather than mobile homes.

1/1

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES



Four of five of the prefabricated housing units were located in a compound in Belize City, Belize far from the rural project sites.

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES



These bridge components were located in Belmopan, Belize. . . .

45

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES



....others were found uncatalogued in Hattysville, Belize.

41

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES



Crates (foreground) containing steel pinions and connectors lay exposed, uncatalogued and insecure.

AUDIT  
OF AID/BELIZE'S PORTFOLIO  
AND OPERATING EXPENSES



A portion of project-financed Caterpillar and Ford spare parts commingled with the inventory of CEMCOL, a for-profit Caterpillar dealership located in Belize City, Belize.

6

AGENCY FOR INTERNATIONAL DEVELOPMENT  
UNITED STATES A. I. D. MISSION TO BELIZE  
EMBASSY OF THE UNITED STATES OF AMERICA  
BELIZE CITY, BELIZE, CENTRAL AMERICA



Date: July 31, 1987 *William E. Ehrlich*  
Reply to: Neboysna R. Brashich, A.I.D. Representative,  
AID/Belize  
Subject: Draft Audit Report on the Audit of AID/Belize's  
Portfolio and Operating Expenses  
To: Cornage N. Gothard, RIG/A/T  
Ref: RIG/A/T Memorandum dated June 12, 1987

Herewith please find AID/Belize response to subject Draft Audit Report which was reviewed by the Mission.

BACKGROUND

AID/Belize agrees in general with many of the Draft Report Audit findings and recommendations as is evidenced by Mission actions to date.

AID/Belize, however, is not in agreement with several of the Draft Report allegations and conclusions based solely on activities of the Rural Access Roads and Bridges Project 505-0007 (Roads Project). There are instances where sweeping generalizations have been made based upon isolated cases. Other major allegations and conclusions are incorrect as will be demonstrated later in this response.

AID/Belize believes most of the serious disagreements between the Audit Team and the Mission could have been avoided, or at least reduced, if there had been effective communication between the Audit Team and the A.I.D. Representative.

Regarding communications, the Mission read with interest the Inspector General's policy cited on page 5 of the Annual Audit Plan for the period April 1, 1987 through March 31, 1988.

-2-

the pertinent section reads, in part, as follows:

"Keeping Management Informed"

During the progress of the audit, it is IG policy to keep management advised of findings as they are developed. The following forms of communication should be provided to management by the IG.

"Report - During field work, potential findings are discussed with management. This serves two purposes. First, it provides an opportunity for misunderstandings and inaccuracies to be rectified. Second, it provides early notice of deficiencies so management can take corrective action before the audit is completed.

"Briefings - At various times during the audit, the auditors may schedule briefings to advise management of significant issues. The briefings will be conducted on an as-needed basis, with the significance of the issues determining the management level to which the briefing will be elevated.

"Draft Findings - Prior to the exit conference, appropriate management personnel are provided discussion copies of the findings and recommendations that are planned for inclusion in the draft audit report. Management will be aware of the issues from earlier meetings with IG staff. These discussion drafts should be reviewed carefully so that the exit conference will be productive.

"The Exit Conference"

An exit conference is held to formally advise management of the audit results and to obtain their comments on proposed findings and recommendations. Agency management input is vital prior to the issuance of the draft audit report so that disagreements can be settled, if possible, issues and conditions will be fairly reported, and any errors can be corrected.

"The Audit Report"

Draft Report - Following the exit conference, the draft findings and recommendations may be amended based on management comments made at the conference. The draft report is then issued and written comments are requested from management within 30 days. If management does not concur with the report as written, an additional meeting with management may be requested to work out the differences, if possible, before the formal written comments are prepared.

5

-3-

"Final Report - After the IG receives management's written comments to the draft report the final internal audit report is issued. The entire written comments are included in the report to ensure the Agency's viewpoint is represented. If the IG disagrees with any of management's comments the reason for disagreement will be clearly explained in the report. The IG wants these final audit reports to provide a complete and accurate picture of the specific areas audited at the time the reviews were performed. Fairness and balance in presenting the conditions reported is what the IG strives for in his reports "

The A.I.D. Representative was contacted infrequently by the Audit Team. This is unfortunate since the A.I.D. Representative had started the Mission and could have furnished a wealth of background information and explanations regarding early Mission activities, especially those affecting the Roads Project. As indicated in the "Historical Perspective - Start-Up of the A.I.D. Mission to Belize" which AID/Belize furnished to the Auditors, and which is presented later in this submission, it was close to being a one-man show during the early period of Mission operations. Not meeting frequently with the A.I.D. Representative deprived the Audit Team of a valuable source of information and terms of reference.

In addition, at no time during the Audit did the A.I.D. Representative receive a briefing of specific audit issues. Had these periodic briefings taken place, many questionable issues could have been resolved and/or corrective actions initiated in a timely manner.

The Mission received a total of 13 Records of Audit Findings (RAFs) during the course of the Audit. An additional 5 RAFs were received by mail on Thursday, May 7, 1987. Four of the last five RAFs dealt with the Roads Project.

The Exit Conference took place the afternoon of May 11 and morning of May 12, 1987. With the exception of the Roads Project, the Exit Conference was helpful. It was obvious to the A.I.D. Representative and perhaps the Auditors as well, that there were significant differences of opinion regarding the Roads Project. Notwithstanding the harsh tone of the Roads Project RAFs and applicable sections of the Draft Report, plus that of this response, the Mission strongly believes effective communication between the Audit Team and the A.I.D. Representative would have resolved most of the disagreements.

An open, positive relationship between the Auditors and Mission would also have resulted in a more constructive exercise. As

51

-4-

It is, a tremendous amount of Mission resources were and are still being devoted to audit related matters. AID/Belize assumes the audit exercise must have been costly for RIG/A/T as well, since there were as many as five Audit Representatives during much of the audit.

Regarding this relationship, policy guidance from page 3 of the Inspector General's Annual Audit Plan for the period April 1, 1987 through March 31, 1988 is hereby quoted.

"It is the IG's intent, in scheduling these audits, that they serve as a useful tool to management. Thus, when the auditors come to an office or mission, they will make the audit as positive and helpful as possible. The understanding and cooperation of the office or mission is needed to assist the auditors in performing the audit and taking corrective action on weaknesses identified by the audit so that the office or mission and the Agency will benefit."

AID/Belize saw little evidence of compliance with the above Inspector General's Policy. The RAFs and, to a lesser degree the Draft Report, were presented in a negative manner, and included unnecessary insinuations and allegations.

All in all, the audit effort was not as effective as it could have been and the Agency ends up being the biggest loser, in our opinion. Part of the blame may be ours. Next time AID/Belize will do its utmost to foster more effective communication since the Mission believes strongly in audit coverage. In this age of "more with less," a given Mission requires as much constructive criticism as possible in order to maximize its chances for effective administration and proper project implementation.

#### HISTORICAL PERSPECTIVE - START-UP OF THE A.I.D. MISSION TO BELIZE

The following historical perspective was previously furnished to the Auditors to provide an idea of conditions and events affecting the establishment and operations of AID/Belize. It is difficult to determine whether this presentation was considered by the Auditors. Accordingly, this is being repeated since it provides a useful perspective to the reader.

"Belize (formerly British Honduras) was the beneficiary of limited U.S. economic assistance during the 1970's through ROCAP/Guatemala and RDO/Barbados. The Government of Belize, however, officially requested the opening of an

SV

A.I.D. bilateral mission at independence in September, 1981. The need for economic development was critical, given the serious economic crisis caused by the rapid decline in world prices of sugar, citrus and bananas, Belize's three principal exports. Although USAID/Belize had to be started from scratch in January 1983 propelled initially by the Caribbean Basin and subsequently by the Central American Initiatives the Mission actually became fully operational only during the spring of 1986.

"Policy objectives were identified to underscore these initiatives. The overall U.S. objective calls for the maintenance of friendly relations with Belize in order to assure a democratic independent, economically viable country which is supportive of our policies and capable of maintaining its territorial integrity. The attendant development strategy emphasized short-term economic stabilization support and longer-term economic development assistance to allow the country to achieve sustainable economic growth.

"Initially housed within the Embassy, the staff consisted of the A.I.D. Representative and a USPSC Executive Assistant for that first year. There were no A.I.D. handbooks Mission orders or administrative notices, files, A.I.D. forms or precedents to guide the locally-hired Executive Assistant. Data on Belize was non-existent and the Government had difficulty articulating its needs and even less, prioritizing these needs. The A.I.D. Representative had to obligate some \$17 million in nine months, address balance of payments problems and initiate several targeted long-term development projects. Some 150 TDYers assisted the Mission in this process, a load factor of formidable proportions. Space was at a premium. During these hectic months a development strategy also had to be developed. Much time was spent traveling to Washington to defend each initiative as well as provide the Belizean perspective needed by the Bureau. This process had to be maintained and constantly reinforced until the Mission reached its fully operational status in 1986.

"Early in 1984 a USDH Agricultural Development Officer and a TCN Financial Analyst from USAID/Nicaragua arrived at post, followed somewhat later by a TCN General Services Officer from USAID/Philippines. The latter two were crucial, given their long experience with A.I.D. programs which the Mission sorely lacked. The official accounting station has been located in USAID/Honduras and specialized assistance was being provided by the Regional Legal

-6-

Advisor from RDO/Barnados and the Regional Contracting Officer from USAID/Panama. This was the existing staff through mid-1985, by which time the portfolio had increased to \$40 million involving some 15 projects. The influx of TDYers did not abate and an additional 200 consultants worked on the Mission program during this period. The CDSS covering FY 1984-89 was finalized, defended and approved by the Bureau, focusing on economic stability, agricultural diversification, export promotion, infrastructure development, and selected human resources development and utilizing ESF, DA, HIG, PL 480 and centrally-funded resources.

"This period of conceptualization and program/project preparation was thus well underway. However, with implementation about to begin at earnest, USAID/Belize still had no additional direct-hire staff to handle an ever-growing workload. Repeated appeals to the Bureau resulted in the Ink Commission recommendations for additional USDH, TCN and FSN staff. During the second half of 1985, the following four USDHs arrived at post -- a Controller, General Development Officer, Program/Project Development Officer and an International Development Intern. Three additional TCNs, seven USPSCs and eleven FSNPSCs were in place by early 1986. Housing this growing staff was now possible, since a Mission building and a warehouse had been erected in early 1985 -- prefabricated buildings imported from the United States at one-third the cost of local construction and erected in record time of three months.

"At this point, training the staff into a cohesive force and instituting various Mission systems, as well as orders/procedures became paramount. This was accomplished in step with new program development assisted by some additional 150 TDYers. While the Mission staff became fully operational in 1986, its relative size is still small, given our current portfolio of \$70 million and 35 projects. Nevertheless, their performance has been exemplary and the program is presently being consolidated to reduce this workload. Despite these limitations, USAID/Belize was commended by the A.I.D. Administrator, LAC Assistant Administrator and the Bureau for results achieved in such a short period of time, ranging from successful policy dialogue in privatization to innovative approaches in agricultural diversification, export promotion and training costs reduction."

21

-7-

## EXECUTIVE SUMMARY

The Draft Report includes several useful findings and recommendations which the Mission endorses. In most cases, corrective actions have been taken.

The Mission does not agree with the segments of the Draft Report based mainly upon the activities of the Rural Access Roads and Bridges Project (Roads Project). These sections involving procurement, inventory controls and shop tools (Sections 2, 3, and 4) contain several erroneous conclusions and reflect a general lack of understanding. More disturbing is that these sections include numerous insinuations and allegations which cannot be supported.

The Draft Report condemns all procurement as inefficient and ineffective and casts doubt as to the honesty and integrity of those responsible for that procurement.

The Mission acknowledges a need for improvement. However, as shown in the charts in our response, the sweeping allegations made in the Draft Report are based upon isolated instances, reflecting a small percentage when compared to total procurement.

The Draft Report criticizes the Mission's September 1984 procurement of a prefabricated office building, stating, "It could not be determined if AID/Belize paid the best price for the prefabricated structure because there was no evidence that the procurement had been advertised and competitive bids received."

Discussions with the A.I.D. Representative would have disclosed that a Non-Competitive Review Board had convened on August 30, 1984 for the "purpose of reviewing the procurement of a pre-manufactured/portable office building." The committee was composed of the present A.I.D. Representative, the Agriculture Development Officer (since retired), and the Regional Legal Advisor.

The Draft Report implies funding availability was one of the main reasons for effecting a non-competitive waiver authority to procure a prefabricated warehouse.

The Mission agrees funding availability was a consideration in accelerating the procurement process. However, the decision to opt for non-competitive procurement was based upon sound business-like rationale as was evidenced in the September 11, 1985 justification. In addition, there was an exchange of

-8-

telegrams with AID/W discussing the warehouse and related conditions. The A.I.D. Representative would have been pleased to share the information cited in the referred telegrams had the Audit Team brought their concerns to his attention.

The Draft Report questions the selection of Porta-Kamp to furnish portable housing at a cost of \$119,270. The Draft Report correctly states there was no record of the bidding and selection process. The Mission confirmed that the file copies of that analysis have apparently been lost. Hence, AID/Belize contacted the firms who had tendered the missing offers. These firms had fortunately retained file copies of their offers which were furnished subsequently to the Mission for our files.

The Mission analyzed the bids and, as demonstrated in the body of our response, the Porta-Kamp bid was by far the most advantageous to the U.S. Government.

The Porta-Kamp housing procurement was achieved in accordance with A.I.D. HB 11, Chapter 3 - Host Country Contracting Procedures. Although formal advertising was waived, the contract opportunity was conducted using HB 11, Chapter 3 - Informal Procurement Standards. The Government of Belize (GOB) selected the offer which was considered to be most advantageous. Had a better offer than Porta-Kamp's been received, the GOB would have taken advantage of this opportunity. Thus, the inference that one procurement influenced another is unwarranted.

It is unclear why the Draft Report has included the three excerpts on page 19; however, they conclusively show that the Mission carried out its responsibility in monitoring proposed awards by a host country to assure that an award decision is supportable. AID/Belize can only assume from the excerpts that the Mission is exercising its monitoring role conscientiously. Hence, the use of the term "arm's length" on page 20 is unnecessary and, at least, provocative.

The Draft Report states that A.I.D. procurement procedures were not used by AID/Belize. In every case mentioned, the Mission followed either A.I.D. direct contracting procedures or host country contracting procedures. Simply because waivers or informal procedures, as provided for in the regulations, were deemed necessary in the best interest of project implementation does not mean that "procurement procedures" were not used. Waivers are a recognized option in those procedures. The Mission stands by the procurement decisions made and finds the conclusion that payments for commodities occurred at "excessive prices" totally unsupported.

30

MISSION RESPONSES TO AUDIT RECOMMENDATIONS

1. CONTRACTING AUTHORITIES

Recommendation No. 1 recommends that

"AID/Belize request and obtain (a) a review by the clarification from A.I.D.'s Office of the General Counsel, the A.I.D. Directorate for Program and Management Services, and A.I.D. Bureau for Latin America and the Caribbean on Redelegations of Authority No. 99.0.202, 133.3.1 and 149.1.1 and their renumbered successors; and (b) a determination from A.I.D.'s Associate Assistant to the Administrator for Management and subsequent ratification for \$414,795 in over-obligations for seven awards that may have exceeded the contracting authorities of the AID/Belize Principal Officer."

The first paragraph of this section in the Draft Report reads in part,

"Certain of the delegations of authority for AID/Belize were not clear, and AID/Belize may not be in compliance due to misinterpretations thereof. Consequently, the AID/Belize Principal Officer may have exceeded contracting authorities in seven instances for a cumulative amount of \$414,795 in over-obligations."

What the Auditors consider as contractual arrangements possibly exceeding contractual authorities are not over-obligations. The Auditors should refer to obligation concepts discussed in Chapter 2 of A.I.D. Handbook No. 19.

The Mission asked the Regional Legal Advisor (RLA), who was in Belize on TDY during late June 1987, to review the section of the Draft Report dealing with contracting authorities. The RLA provided the following comments:

Recommendation No. 1-a, taken in context with its pertinent discussion text, is confusing and at the least should be rephrased. The cited redelegations (99.1.202, 133.3.1 and 149.1.1) are unambiguous. They either emanated from SER/CM, the only office authorized to issue redelegations with regard to the signing of A.I.D. direct contracts and grants to non-governmental entities, or AID/AA/LAC, the only office authorized to redelegate project approval authority to the field. The successor delegations 755/AIDAR 702.170.10 and 452 are equally unambiguous. Yet the Draft Report recommends that AID/Belize request they be clarified, at least with regards to OPGs. What appears to confuse the Auditors (page 10 of Draft

51

-10-

Report) is the distinction between project approval and the authority to sign contracts, grants and cooperative agreements.

AID/Belize officials correctly construed Redelegation of Authority No. 99.1.202 as conferring signing (Draft Report uses word "certification") authority for OPGs upon the A.I.D. Representative in amounts up to \$1,000,000 per grant. AID/Belize also understood that prior to A.I.D. Redelegation 133.3.1 it had no authority to approve a project without prior approval from AA/LAC.

Contrary to the assertion on page 10 of the Draft Report, AID/Belize obtained a May 11, 1987 definitive opinion from GC/LAC, apparently concurred by IG/LC, that the \$500,000 ceiling of delegation 755 is a limitation upon the A.I.D. Representative's authority to authorize OPGs in the field. But, since AID/Belize, with regard to the cited projects, never used the \$500,000 project approval authority, this point is academic. Once AA/LAC approved an OPG activity for AID/Belize, however, under specific contract/grant redelegation authority, the A.I.D. Representative in Belize could sign an OPG in an amount up to \$1 million. As AID/Belize explained in a June 2, 1987 response to RAF No. 1, all of its non-governmental grant (including OPG) and cooperative agreement activities had specific approval from AA/LAC. With that approval in mind, the A.I.D. Representative could sign contracts, grants (including OPGs) and cooperative agreements up to his delegated authority.

The Mission can only surmise that the two lines of authority (one for project approval, one for contract/grant signing) are confusing the Auditors. Since this type of delineation of Mission authority is in effect worldwide, AID/Belize must request RIG/A/T to bring its concern about the apparent confusion to AID/W's attention to decide if clarification is needed.

With the exception of the direct contracts stated below, AID/Belize operated within all pertinent delegations of authority. In this same vein, the listing of activities on page 12 of the Draft Report includes two OPGs which, as explained in our response to RAF No. 1, were executed in full compliance with all delegations of authority as explained above.

With specific regard to the direct contracts, however, as was noted on page 12 of the Draft Report, AID/Belize requested ratification of the amendments which were executed in excess of the contract delegation limitations. Since issuance of the Draft Report, AID/Belize has received ratification dated June 19, 1987 from M/AAA/SER of the remaining agreements totaling \$77,186 (4, 6 and 7).

58

In sum, AID/Belize requests RIG/A/T to redirect Recommendation No. 1-a to an appropriate AID/W Office, and to consider clearing Recommendation No. 1-b since all issues have been resolved and/or ratified.

## 2. PROCUREMENT

### A. General

The Draft Report concludes AID/Belize's procurement practices were ineffective. The Mission believes the term "ineffective" is inappropriate. Granted, there is always a need to continuously improve Mission procurement practices. However, the term "ineffective" implies a complete lack of ability. With the exception of isolated instances, required purchasing authorities and procedures were adhered to.

Once staffed, the Mission took action in establishing and enhancing its procurement capability. For example, early in 1986 AID/Belize established a Procurement Specialist position. An individual was identified and sent to Washington in September, 1986 for training on "Federal and A.I.D. Acquisition Regulations." The Regional Commodity Management Officer (RCMO) was also invited twice that year to work on specific procurement actions as well as to provide brief training sessions to Mission staff. In addition, three Mission Officers attended the "Contracting for Non-Procurement Personnel" training course. A video tape of this same course was requested and received for Mission's use.

At AID/Belize's request, the Regional Contracting and Commodity Management Officers came to Belize during May 1987 and prepared operating manuals for Mission guidance. Training was provided to a PSC dependent spouse in charge of Mission procurement functions. Additional country training at an established Mission will also be arranged by the RCMO. The RCO and RCMO are now scheduling frequent visits to advise staff on procurement activities, in addition to assisting via telephone and/or cable as required. Accordingly, AID/Belize asks that RIG/A/T consider clearing Recommendation No. 2-a.

The Draft Report addresses the universe of AID/W and AID/Belize administrative and project procurement of goods and services, condemns all procurements as inefficient and ineffective, and casts doubt upon the honesty and integrity of those responsible for that procurement. It sits in judgment on the wisdom of the Roads Project design, and condemns those who provided the authorization to set the project in motion. It fails to acknowledge that the Project Paper (PP) justifies the rationale for proprietary procurement and establishes the need for

-12-

Caterpillar and Ford products, respectively.' The Project design also called for the use of PSCs to provide technical assistance.

The Draft Report -- while condemning all Mission procurement activities -- points out, but fails to differentiate between, flaws in procurement policy and flaws in the technical aspects of procurement. It also fails to make any distinction between administrative and project procurement or to acknowledge the difference in regulations governing the two.

In its opening paragraph, the Draft Report describes various options available for commodity procurement pursuant to project implementation. The second paragraph, however, speaks of AID/Belize accepting procurement responsibility to erect an office building and warehouse in 1984. (The office building was erected in 1984; the warehouse in 1985.) The office building and warehouse are actions which would normally be undertaken by a Mission, since they are funded from Operating Expenses (OE) Budget. It further states, "During this same time AID/Belize also accepted procurement responsibility for one of its most visible projects." The Mission believes this reference is to the Roads Project. If so, the statement is incorrect, as major procurement responsibility for the Roads Project was delegated to AID/Washington in the PP and was, in fact, carried out by either AID/W or the Excess Property Division of the A.I.D. Office of Commodity Management. The Roads Project offshore commodity procurement was carried out in Belize by the GOB, assisted by AID/Belize.

AID/Belize accepts the principle of the audit recommendation. The RCMO will assist the Mission in the future in the technical aspects of commodity procurement as well as provide training for the Mission Procurement Specialist. However, policy issues relating to any and all of AID/Belize procurement actions will continue to be handled by the Mission.

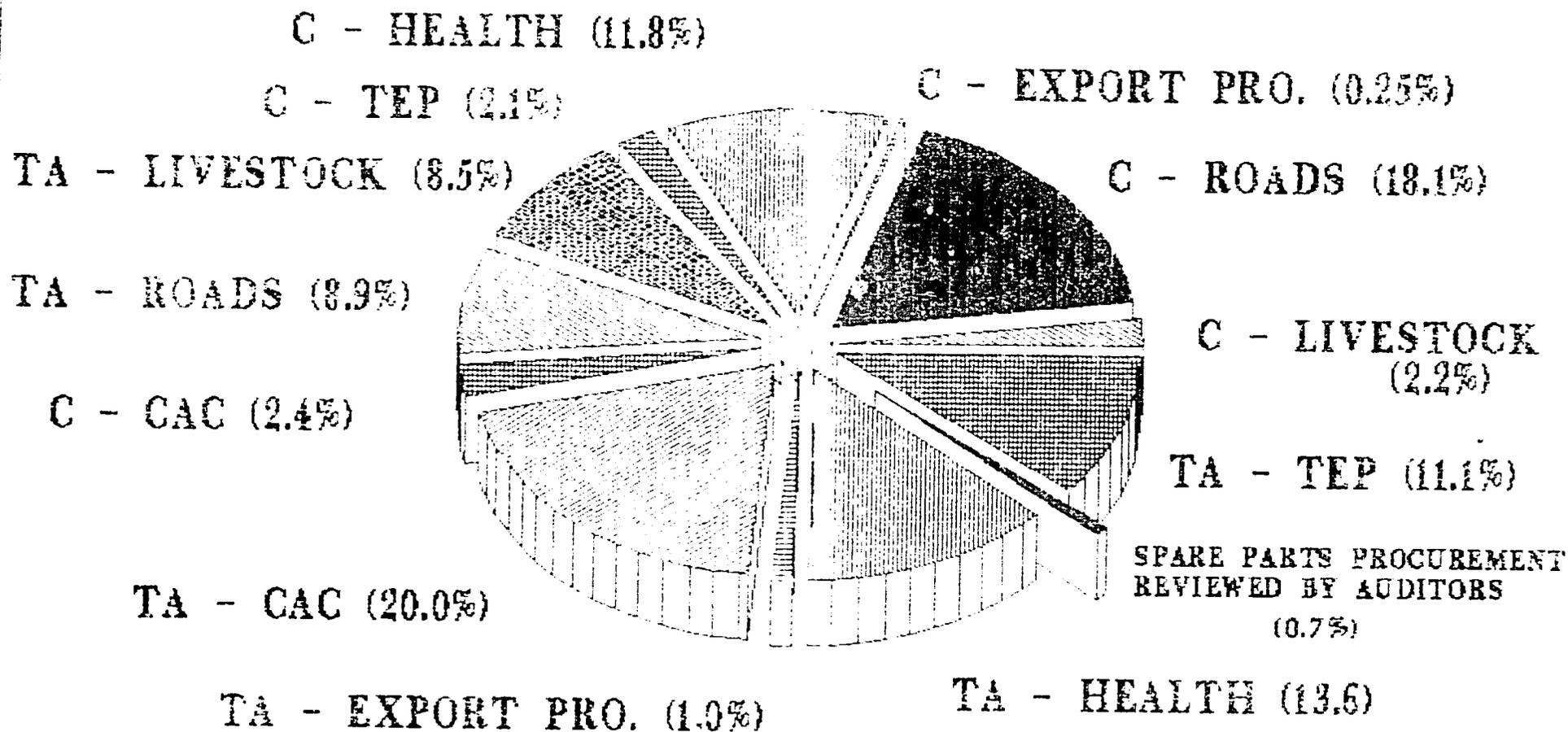
#### B. Mission Portfolio Procurement

The discussion section of the Draft Report is poorly organized, and reflects a less than working knowledge of A.I.D. administrative and project procurement procedures. It is therefore extremely difficult to respond to.

In an attempt to introduce a rational approach, the Mission will begin with a picture of total project procurement activities, and separately address administrative procurement. Chart 1 on Page 12a shows portfolio projects with significant procurement activities. It further breaks these procurement activities into technical assistance and commodity procurement

# BELIZE PROJECT PORTFOLIO

## TOTAL PROCUREMENT OF GOODS & SERVICES



### LEGEND:

TA - Technical Assistance  
 C - Commodities  
 TEP - Training for Employment (0000)

HEALTH - Increases Prod. Thru Better health (0000)  
 Export Pro. - Export Promotion (0007)  
 CAC - Commercialization of Ag. Crops (0000)  
 ROADS - Rural Access Roads & Bridges (0007)  
 LIVESTOCK - Livestock Development (0000)

-13-

activities. Total project procurement to date is in excess of nineteen million dollars. Sixty-five percent, or \$12 million of total procurement, has been for technical assistance (TA). Nine percent represents the Roads Project PSCs with which the Auditors took issue. The procurement of PSCs was handled by the Office of Contract Management in AID/W. Much of the criticism is of the policy established in the Project Paper for which Mission management should not be faulted. The technical aspects of this competitive procurement were not addressed.

On the commodity side, the chart reflects offshore procurement of over 7 million dollars of project commodities. The Draft Report found fault with several aspects of the Roads Project commodity procurement. Chart 2 on Page 13a shows the breakdown of project commodity procurement. Procurement is divided between AID/W (including excess property) procurement and host country procurement carried out in Belize. It indicates that seventy percent of the Roads Project commodity procurement was carried out in AID/W. The Mission believes that all appropriate regulations were adhered to. Of the remaining one million procured by the GOB from Belize, 41 percent was procured using formal competitive procurement procedures, 16 percent using informal competitive procedures, 26 percent using proprietary procurement procedures, and 17 percent using the services of a procurement agent.

The Draft Report found fault with the informal competitive procurement of portable housing -- not so much with the technical aspect of the procurement as with the inability of the Mission to document the procurement. It also found fault with one of the three spare parts procurements in which the services of a Procurement Services Agency were used.

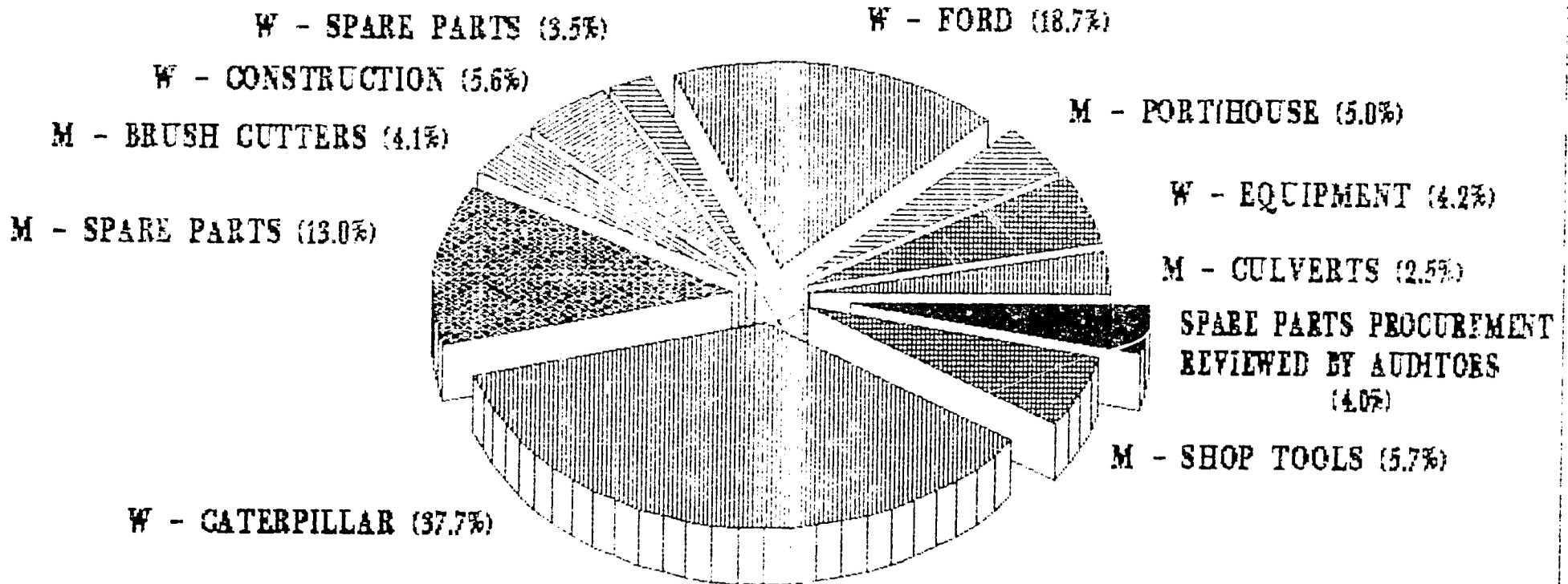
### C. Mission/Host Government Relationship

The Roads Project, which is the primary focus of the Audit, was not the first Project to be authorized but was the first Project to be implemented in Belize. There was a sense of urgency on the part of all those involved -- AID/W, the U.S. Mission to Belize and the GOB. GOB personnel who were responsible for project implementation had had no previous exposure to A.I.D. procurement procedures and wished to gain experience. Early in the implementation phase of the Project, a three day seminar was held for the purpose of acquainting involved Ministry of Works (MOW) personnel with A.I.D. procedures. The Minister of Works plus 40 staff members attended and actively participated in implementation planning.

The Draft Report portrays the collective memory of those GOB officials interviewed by the Audit Team as having universally

62

# ROADS PROJECT OFFSHORE PROCUREMENT



**LEGEND:**

- W - AID/W Excess Property Procurement
- M - Mission Assisted Host Country Procurement

-14-

failed when asked to recall their involvement in project planning and implementation. The then incumbent Minister of Works, whose letter is inserted below, recalls signing documents drafted on his behalf by AID/Belize and at the same time recalls the deep involvement of Ministry staff in drafting final documents. The Mission was a facilitator, but in no instance during the initial procurement phase was action taken that did not involve Ministry personnel in the decision process. Quoted below is a recent letter from the former Minister of Works:

"Some time in March, 1987 I was contacted, through the telephone, by a lady who asked a series of questions concerning A.I.D. in Belize during my term as Minister of Works. This was a broad, general conversation that lasted a few minutes, concerning the Porta-Kamp procurement. Mr. Alex Powers and myself discussed this in depth. Mr. Powers told me that there were three different bids. He explained the pros and cons of the three bids.

"After discussing the pros and cons of the three bids, I chose the Porta-Kamp bid. On all procurements and on the entire programme, I worked very closely with Mr. Alex Powers who kept me fully informed and aware of whatever was happening. I always made the final decision on all bids and procurements, after discussions on the particular bids, with Mr. Powers.

"I am surprised at the statement that our Ministry had no records or files on Porta-Kamp procurement, as USAID could not have made the procurement unless there was a written acceptance by my Ministry for such.

"There were many occasions when I held meetings at the USAID office and my Ministry with Mr. Brashnic, Mr. Jenkins and Mr. Powers. In fact, at two or three of these meetings at the USAID office, Mr. McDonald was also present.

"There was always a close and good working relationship between myself and the USAID team. We kept in constant contact on all aspects on the programme of work being carried out."

One point at issue is the procurement of portable housing for project contract personnel. There was deep and significant involvement of Ministry personnel in the solicitation and selection of the contractor to supply portable housing for PSGs. That involvement is reflected in the Draft Report on page 19. While the language of the letter quoted was suggested

6

-15-

by the Mission, the GOB decision to award to Hanet International could not be approved by AID/Belize as it would have resulted in considerably higher erection costs for the housing units. In addition, the Hanet homes would have been very expensive to move as they were not truly portable.

#### D. Roads Project - Portable Housing/Porta Kamp

The Agricultural Development Officer (ADO) was assigned to AID/Belize in early November 1983. At the time of assignment he was a TDYer from LAC/DR/RD, AID/Washington. During the period between the date of assignment and arrival at post (about three weeks), the ADO was backstopping AID/Belize and attending to AID/Belize business in AID/Washington. It should be pointed out that contrary to comments in the Draft Report, the ADO was no stranger to Commodity Procurement. He served from January 1974 through November 1977 as Chief of the Agri-business and Textile Branch, AID/Washington Office of Commodity Management. In this position he had direct worldwide responsibility of more than \$300 million per year for A.I.D.-financed procurement of pesticides, fertilizers, feed, seeds, live animals and textiles. In addition, he served for more than thirteen years as ADO at various missions and was thoroughly knowledgeable of project procurement regulations and procedures.

Two nagging problems needed to be addressed: (i) making preparation for the arrival of the Roads Project PSC team, and (ii) resolve problems relating to the eligibility of A.I.D. Code 935 vessels for A.I.D. financing under this grant-funded project.

The ADO spent considerable time in the Office of Commodity Management, working with the SER/COM Commodity Specialist identifying potential suppliers of portable housing units for the PSC team. Five firms were identified as potential suppliers. SER/COM provided technical data on some of the suppliers, but more importantly the Commodity Specialist had first-hand knowledge of the firms' performance as A.I.D. contract suppliers of portable housing. The ADO placed a number of telephone calls directly to the firms to learn more about their respective products.

It soon became apparent that the shipping cost of typical U.S. mobile homes would be prohibitive, as they are non-collapsible. Shipping costs are based on cubic-feet rather than weight alone. Shipping this type of unit, fully erected, would have resulted in freight costs of more than double the value of the house. Considering this factor, the universe of potential suppliers was reduced to three firms known to

-16-

SER/COM. A remaining concern was the portability of other than mobile home type units.

Resolving the issue of a shipping waiver was less successful. There are no U.S. flag vessels serving Belize on a regular basis. The U.S. Flag requirement was waived in the Project Paper. However, the requirement to use A.I.D. Code 941 flag vessels remained in effect. SER/COM/Transportation contended that there was one 941 flag vessel serving Belize and that this vessel would have to be used if A.I.D. funds were to finance freight.

When the ADO arrived at post he immediately began to assist the MOW personnel in the procurement process. As housing in Belize remained critical, housing procurement was high on the agenda of both the Mission and GOB. In early January 1984, AID/Washington completed the contracting process and the Project Chief-of-Party arrived at post January 7, 1984, soon to be followed by the remainder of the Contract Team.

Both Ministry officials and Mission staff were anxious to accelerate the procurement process and avoid serious delay in project start-up. Given the relatively small universe of potential suppliers and to compress the requisite time in which an award might be made, a request for a waiver of Handbook 11 requirement for advertising, coupled with the use of informal procurement procedures, was prepared for the A.I.D./Belize Representative's action. With the advice and counsel of the RLA, a waiver was approved by the A.I.D. Representative and informal solicitation of offers began immediately.

The initial solicitation requested offers for four prefabricated/portable two bedroom, one bathroom homes including furniture, appliances and generator, CIF Belize. In addition, offers for two extra sets of household furnishings for other contract personnel and one extra set of appliances were requested.

Written offers, complete with specifications were received from three firms: (1) Hanet International Company, 13135 Champions Drive, Suite 200, Houston, Texas 770069; (2) Modular Complex Company, 13135 Champions Drive, Suite 200, Houston, Texas 770069; and (3) Porta-Kamp Manufacturing Company, P.O. Box 7064, Houston, Texas 77248. A technical committee to assist the GOB in the review and analysis of offers was formed. The committee was composed of GOB personnel, AID/ADO, PSC Chief of Party, and AID/RLA. A summary of the first analysis follows with appropriate footnotes.

-17-

ANALYSIS OF PORTABLE HOUSING OFFERS  
INITIAL OFFER

	HANET INT'L.	MODULAR COMPLEX	PORTA-KAMP
Cost of 4 Houses including generator	\$145,928 <sup>a</sup> (153,828) <sup>b</sup>	\$221,908 <sup>c</sup>	\$157,964 <sup>d</sup>
2 sets of furniture	22,739 <sup>d</sup> (28,856) <sup>b</sup>	19,800 <sup>e</sup>	39,266 <sup>f</sup>
1 set of appliances	2,577 <sup>g</sup>	h	5,301 <sup>i</sup>
Erection Costs	No estimate <sup>j</sup>	(231,280) <sup>k</sup>	No estimate <sup>l</sup>
Estimated Cost of Shipping Containers	No estimate <sup>m</sup>	(7,935)	None required <sup>n</sup>
Inland and Ocean Freight	25,260	45,388	57,104
TOTAL CIF/Berize	\$196,504 <sup>d</sup> (\$210,521) <sup>b</sup>	\$287,096	\$259,635 <sup>d</sup>

- NOTES:
- <sup>a</sup>Includes the cost of 4 only 6.5 KVA generators
  - <sup>b</sup>Includes the cost of 4 only 10.0 KVA generators
  - <sup>c</sup>Includes the cost of 4 only 7.5 KVA generators
  - <sup>d</sup>Includes the cost of 4 only 12.5 KVA generators
  - <sup>e</sup>No generator included
  - <sup>f</sup>Includes the cost of 2 only 12.5 KVA generators
  - <sup>g</sup>Does not include air conditioners
  - <sup>h</sup>No offer
  - <sup>i</sup>Includes the cost of 10 air conditioners
  - <sup>j</sup>No estimate of erection cost given
  - <sup>k</sup>Estimate of erection cost using labor furnished by offerer
  - <sup>l</sup>No estimate of erection costs given
  - <sup>m</sup>Estimate of container lease not provided by offerer
  - <sup>n</sup>Porta-Kamp shipping mode required no containers as one of the three modules comprised of a unit is shipped as an erected unit. Furnishing and appliances, etc., were to be packed in these erected units.

67

-18-

As noted in footnotes a, b & c, these base prices cannot be compared directly, as they include the cost of different size generators. File copies of that analysis have apparently been lost. Hence, AID/Belize contacted the firms who had tendered the missing offers. These firms had fortunately retained file copies of their offers which were furnished subsequently to the Mission for our files.

Initially, the GOB selected the Hanet International proposal, since it appeared to be the lowest price on a CIF Belize basis. The MOW requested formal AID/Belize approval of their selection in a letter dated January 27, 1984. Two events took place shortly after the Mission received this letter. The first was that SER/COM/Transportation reconfirmed their decision and did not provide the necessary waiver to allow A.I.D. financing of freight on a non-Code 941 vessel. Secondly, on closer analysis of the Hanet International offer, a hidden cost was identified. The Hanet International units consisted of a series of panels which were to be packed in 9'-10' containers. It was determined that the lease cost of these containers had not been included in their offer. Inclusion of the cost of containers would result in a considerably higher total freight cost than indicated. The Hanet International units also required the buyer to pour a full concrete slab upon which the house would be erected, and the cost of this foundation would add significantly to the finished price of the unit; also, the units would not be truly portable.

The procurement committee regrouped and after extended discussion decided to amend the solicitation and request offers on an FOB vessel basis. This approach set aside the problems related to ocean shipping and considered only the cost of the commodities. The GOB was able to negotiate a freight rate with the Hybur Shipping Lines which was approximately 50% below the rate quoted in the offers. In the absence of an SER/COM waiver of Code 941 flag vessels, Hybur was not eligible for A.I.D. financing. The GOB decided to use Hybur Shipping Lines and pay the freight costs using their own funds.

As the housing units offered by the Modular Complex Company were considered inappropriate and too costly to erect, only Hanet International and Porta-Kamp were requested to modify their offers. Both Hanet International and Porta-Kamp were requested to offer 6.5 KVA generators in their amended offer.

As reflected in the following analysis of the responses to the amended solicitation, Porta-Kamp replaced Hanet International as the lowest offerer.

10

-19-

ANALYSIS OF PORTABLE HOUSING OFFERS  
(In U.S. Dollars)  
AMENDED

	<u>HANET</u>	<u>PORTA-KAMP</u>
4 only two-bedroom homes complete with appliances, furnishings and 6.5 KVA generators	\$145,928	\$122,512
Inland freight and handling 6.5 KVA generators each	675*	4,365
2 only sets of household furnishings	2,098	1,829
	21,599	18,056
	<u>\$170,300</u>	<u>\$146,762</u>

\*Does not include the cost of 10-20' containers estimated at \$1,000 per container, or \$10,000.

In addition to offering the lowest price, Porta-Kamp units are truly portable, mounted on steel skids and require a level area of a few short piers to rest the skids on. The units were not moved but for reasons other than their potential portability, Porta-Kamp's shipping method resulted in further cost saving. Units are shipped with two of the three modules, which make up a unit, knocked down. The third module becomes a shipping container for the furniture and other items such as the extra set of appliances and generators. No other shipping containers are required. The result is free freight for these extra commodities.

Considering the above, the GOB requested that they be authorized to make the award to Porta-Kamp rather than Hanet International. Every aspect of this procurement was in full compliance with appropriate A.I.D. Project procurement regulations.

The judgment of the Auditors is that any sole source on non-competitive procurement is inherently questionable. The

b

-20-

Mission concurs with the concept that under normal circumstances formal competitive procurement is desirable and where applicable was used to procure project commodities. Nonetheless, following Handbook provisions for waiver of this requirement conforms to the AIDPR to the same degree as does strict adherence to formal competitive procurement provision. Waiver provisions, where required, were followed to the letter.

On page 20 paragraph 2, the Draft Report rather harshly suggests that the relationship with Porta-Kamp was "less than arm's length." It uses as an example a November 1984 "delivery" by Porta-Kamp of over \$2,000 in tools. The report fails to note that the "delivery" was based on an Operating Expense (OE) -funded purchase order. The face of the invoice, upon which the example is based, indicates that the order was verbally placed. The second page of the invoice clearly states that "this is a proforma invoice". While the proforma invoice was prepared as a result of a telephone call, the "A.I.D. Purchase Order" was prepared based on the proforma invoice. This OE procurement was for tools that were specific to the erection of the Mission office building. The need to accelerate procurement was urgent in that the Porta-Kamp engineer, who was directing the erection of the office building, was in country. The Porta-Kamp contract provided for a specific number of days of engineering services. An excessive delay in the availability of the required tools would have resulted in an extension of the engineer's time beyond the time provided under the contract. A four-day extension would have resulted in costs to the Mission in excess of the value of the tools. This procurement in no way violated normal operating procedures.

The statement in the third paragraph on page 20 of the Draft Report is simply not true. While there were some OE-funded purchase orders which may have resulted in costs higher than published by GSA, there is no way to substantiate the claim that AID/Belize paid \$702.00 each for fifty-four 12,000 BTU air conditioners. The majority of air conditioners shown were purchased by the GOB as part of a housing package and not as individual units. Prices quoted by the suppliers were for two-bedroom homes which included air conditioners as well as other household furnishings. Through this method of procurement, the overall cost to the Project was reduced. Six PSC contractors and their families were living in hotels at a considerably higher cost to the project. The ability to deliver the house, the household furnishings and appliances as a package within a very short period of time and move the families out of the hotel into functioning homes would, in only a few days, offset any excess cost.

10

-21-

#### E. Roads Project - Spare Parts Procurement

Chart 1 shows the spare parts procurement identified by the Auditors as faulty. It represents 0.7 percent of the total off-shore procurement related to the Mission project portfolio and only one third of the total of Roads Project parts procurement. The point here is that this 0.7 percent sampling is extrapolated to condemn all of the Mission/Host Government procurement actions.

Many of the points raised in the Auditors' critique of this parts procurement flagged the need to initiate corrective action, which the Mission has since taken. Procurement is now back on track, but it should be pointed out that even the experts can sometimes be wrong. The Auditors pointed out that the Mission was in error requesting U.S. flag vessels. It is a matter of record that more than 90 percent of the ocean freight financed under the Roads Project was carried on U.S. flag vessels.

#### F. Roads - PSC Contracting

This section of the Draft Report is not specifically critical of the contracting process as a procurement action but of the rationale for using the PSC route as opposed to an institutional contract. It claims there is no documentation with respect to the decision to use PSCs. Documentation supporting this concept is contained in the Project Paper which was readily available to the Auditors.

Conclusions drawn with regard to the functioning of the PSC project team do not accurately portray the facts. They do reflect a conclusion that the Auditors discussed the issues with biased reporters.

The Draft Report indicates that the Office of Agricultural Development (ADO) did not monitor the PSC team. This assumption is incorrect since the ADO was staffed by an incumbent Agricultural Development Officer prior to the arrival of the PSC contract team. The ADO was designated responsible for the Roads Project by official Mission Order and exercised that responsibility.

It is not the Mission's intent to portray a Roads Project team functioning with military precision. At the same time, few institutional contracts with A & E firms, irrespective of how impeccable their reputation, are carried out with total personnel harmony or achieve the objectives in their Scopes of Work without problems or significant cost over-run. A review of the Roads Project performance by qualified outside

-22-

consultants noted the accomplishment of the team as totally satisfactory during the first half of project implementation. Worldwide, A.I.D.'s experience in using PSC teams on road projects is very good. A.I.D.'s very positive experience in Africa with the Roads Project PSC team was the basis for this mode of contracting in Belize.

The LAC Chief Engineer, responsible for conceptualizing the Roads Project, in a letter received June 16, 1987 responded to the question why the PSC contracting mode was chosen:

"The PSC method was selected because:

"A. We had located a crew who had worked in Ethiopia, Tanzania and Zaire, and had done effective work for A.I.D. in all three countries.

"B. As PSCs A.I.D. could contract for them at their base salary rate; while a firm would have charged the base salary times a multiplier of 2.5 to 3. A.I.D. got their services for thirty to forty percent of the contract price of a consultant firm."

The remaining life of the current Roads Project is short. The Mission is in the process of designing a continuing effort to develop Belize's secondary road system. Audit recommendations 2-(B) and (C) will be addressed in the design.

#### G. Roads Project - Procurement Planning

The Draft Report asserts that there was a lack of procurement planning on the part of the Mission relative to the bridge component of the Project. This is not correct nor is the Auditors' technical analysis of the inherent requirement for bridge abutments. The problem relative to bridge erection in Belize is not directly related to either planning or the technical aspect of the construction of bridge abutments. The real problem lies in the shifting of bridge priorities which have resulted from a change in the Government of Belize.

Planning for all aspects of the bridge portion of the Project was carried out in detail with the then incumbent Minister of Works. After the bridge procurement was initiated, but before the bridges arrived in Belize, a new Government was elected in December 1984. Priorities of the new Government do not parallel those of the former Government.

The involvement of Belizean officials in the planning of this Project was intense both before and after the signing of the Project Agreement in 1983. The first and most serious planning

11

-23-

Effort was set in motion prior to moving the first yard of earth. This task related to establishing criteria for the selection of roads to be rebuilt and bridges erected under the project. An inescapable element in this process is the political pressure on Government officials. Nonetheless, the criteria established were objective and selection was based on a point ranking split 50/50 on economic and social concerns. This process required an in-depth involvement of not only the Ministry of Works, but also the Ministry of Natural Resources (agriculture included) and the Ministry of Home Affairs. A high level committee composed of representatives from these ministries headed by a Mission staff member was formed. The committee operated on a daily basis over a nine-month period evaluating roads and placement of bridges against these criteria in each district of Belize. The interest and political overtones acted like a magnet in attracting GOB involvement in the Roads Project.

The transition in Government following the 1984 election, required once again very deep involvement of the Government in the Roads Project. The education process which brought the new Government to accept the terms and conditions of the Roads Project Agreement signed by the previous Government was, and remains, intense. The Mission continues to work with the currently elected Government to achieve the objectives outlined in the Roads Project Paper as well as design follow-on project activities scheduled to start in January 1988.

#### H. ADMINISTRATIVE PROCUREMENT -- PORTA-KAMP OFFICE BUILDING

The Draft Report criticizes AID/Belize's procurement of a prefabricated office building in September 1984 by stating: "It could not be determined if AID/Belize paid the best price for the prefabricated structure because there was no evidence that the procurement had been advertised and competitive bids received."

Discussions with the A.I.D. Representative would have disclosed that a Non-Competitive Review Board had convened on August 30, 1984 for the "purpose of reviewing the procurement of a pre-manufactured/portable office building." The committee was composed of the A.I.D. Representative, the Agriculture Development Officer (since retired), and the Regional Legal Advisor. The resulting "Non-Competitive Procurement Waiver" read in part:

"Since opening in early 1983, the Mission has been housed in the Embassy. The Embassy has expanded four-fold during the past eighteen months. Efforts have been made to

13

-24-

accommodate the rapid expansion by erecting partitions and converting hallways, closets, attics and bathrooms into office space. Through this process, all potential space which might be used for offices has been depleted. USAID must locate suitable office space outside the Embassy.

"With the assistance of the Embassy Administrative Officer and the recently arrived A.I.D. FSN-GSO, an exhaustive search has been conducted for suitable offices in Belize. No suitable space is available. Local property owners have offered to build a conventional office building if USAID will agree to a minimum of a five-year lease. This is not a workable solution, as construction would require more than a year. In addition, the Embassy and A.I.D. will be relocating in the new capital, Belmopan within the next three or four years.

"As the only practical solution to this problem, the Mission has elected to procure a prefabricated structure for an office building. The structure will be totally portable, as well as the concrete slab on which it is to be erected. This portability will allow the building to be moved to Belmopan when appropriate.

"USAID/Belize has assisted the Government of Belize (GOB) in the competitive procurement of prefabricated housing for project expatriate personnel on both of the recently implemented agricultural projects. Porta-Kamp Manufacturing Company of Houston, Texas has been a successful bidder on all housing supplies to date. Their offering of prefabricated housing delivered to Belize was the lowest of all offers. On a recent visit to Belize in connection with the erections of A.I.D.-financed project housing, Porta-Kamp presented A.I.D. with an unsolicited proposal for a prefabricated office building which provides a number of advantages:

1. The price offered is only a fraction of the cost of constructing a conventional building with local materials.
2. The prefabricated building will be energy efficient which, given the high cost of electrical power in Belize, will result in significant savings.
3. The building is portable, which will allow it to be dismantled and moved to Belmopan when appropriate.
4. The building can be ready for occupancy within 60 days after a firm order is placed for procurement, which will provide the requisite office space in a timely manner."

14

-25-

- Porta-Kamp Warehouse

The Draft Report questions the September, 1984 non-competitive procurement of a warehouse by stating that "the past excellent performance record of Porta-Kamp plus a Mission desire to obligate available funds by September 30, 1984 were the justifications for non-competitive procurement."

The Mission agrees funding availability was a consideration in accelerating the procurement process. However, the decision to opt for non-competitive procurement was based upon sound business-like rationale as is evidenced in the September 11, 1985 justification which read:

"The USAID took delivery of a knockdown prefabricated office building from Porta-Kamp early last November, 1984. The erection and assembly of the building was completed to our satisfaction about the second week of December, 1984, under the above supervision of a Porta-Kamp engineer. Upon completion of the building, we found that about 2,400 sq. ft. (60 pieces) of sheet rock walls or sidings and several pieces of vinyl battens were left behind by the company at no additional cost to the Mission. It is estimated that the landed cost of these items to be \$5,000.00.

"The Mission could put to good use the 2,400 sq. ft. of sheet rock walls or sidings and the vinyl battens. Therefore, it is advantageous to the U.S. Government to procure through Porta-Kamp.

"We will have uniformity in the make of the building and make possible the interchangeability of building parts as necessary in the public interest in accordance with HB 23;

"Arrange for the services of the same Porta-kamp engineer to supervise the speedy erection and assembly of the warehouse building, and

"A second structure of this kind erected on such a very short time will certainly create another impact on the Belizean business community of the fine example of American technology and could lead to further export sales by U.S. industry."

The Mission discussed the proposed procurement of a prefabricated warehouse building in Belize 3207 dated September 16, 1985. This telegram read, in part:

1  
N

-26-

"1. According to guidance on standard office space, A.I.D.-HB 23, Chapter 5, USAID/Belize needs a space of 5,400 sq. ft. to accommodate approved staff. This includes space for staff, conference room, mailroom, reception area, library, office for TDYers and office for contractors whose offices are located outside the Mission but badly need space support while in the Mission. Additional space will be needed since our program has now reached the implementation stage and we are expecting eight additional contractors who will need some sort of office support as well.

"2. In 1984, USAID/Belize purchased a prefabricated office building from Porta-Kamp, Texas. This building has been divided into two parts: 3,550 sq. ft. net for office space and 700 sq. ft. net as a warehouse.

"3. USAID/Belize requests AID/W approval of the purchase of a prefabricated steel and aluminum building to be used as a warehouse. This will free up the 700 sq. ft. of existing warehouse space cited Para 2, and we will relocate the GSO staff and maintenance contractor personnel to the new warehouse building. Converting the existing warehouse to offices will give us 4,250 sq. ft. of office space. The situation will remain somewhat cramped, but it will be better than the current one.

"4. USAID/Belize has a long-term lease with the Sisters of Mercy for a large lot where the office building has now been erected, plus a spacious parking space adjacent to the office. We suggest erecting the warehouse on the same lot. Size is 70 ft. x 35 ft., or 2,450 sq. ft. The cost of building is CIF Belize Dols 24,967, plus additional local cost estimated at Dols 20,000, for a total cost of Dols 45,000.

"5. The proposed warehouse will be very convenient, secure and can be rapidly provided with water, electricity and telephone connections. In addition, USAID/B has some material worth Dols 5,000 left from the previously erected prefabricated office building which will be used in constructing the warehouse.

"6. On 8/30/85, AID/W increased the Mission OE 1985 level by Dols 67,000. In compliance with LAC Bureau guidance on obligating FY 85 funds by 9/25, your early approval would be very much appreciated. Unless we hear from you by 9/24/85, USAID/B will proceed with procurement."

-27-

AID/W responded in State 288479 approving the procurement of a prefabricated shelter with the "understanding that the prefabricated shelter is to be used in Belize City as a temporary shelter and will be moved to the new capital at Belmopan where the New Chancery will be constructed in FY-88."

AID/Belize had planned to finance the warehouse cost in FY-1986. However, the Bureau contacted the Mission in late FY 85 to ask whether there were some valid bona fide purposes which could utilize additional available O.E. funds. The Mission advised it had decided to go the non-competitive route to buy a warehouse, and that the procurement could be accelerated to take effect in FY 1985. This formed the basis for increasing the Mission allotment.

The A.I.D. Representative and other Mission staff would have been pleased to share the information cited in the referred telegrams and telephone call had the Audit Team brought their concerns to his attention.

#### I. Conclusion

AID/Belize does adhere to A.I.D. procurement rules. In each of the cases referred to in the Draft Report, appropriate waiver procedures were invoked for what the Mission (or AID/W in the original project authorization) considered to be good and sufficient reasons at the time the waiver authority was invoked.

AID/Belize is criticized for including in the spare parts procurement contract requirements for suppliers to ship aboard U.S. flag vessels. This was done, even though the Mission technically could have utilized a blanket waiver permitting shipment of goods and payment of freight charges on foreign flag carriers. The reason was that, in fact, at the time of shipment, the Mission became aware that U.S. flag vessels were offering freight services to Belize. Under these circumstances, AID/Belize felt justified in not adhering to the waivers. Additionally, the Project Paper waiver required A.I.D. to periodically assess shipping flag availability. The Mission is committed to supporting U.S. flag shipping whenever possible. In fact, 90 percent of the ocean freight financed under the Roads Project was shipped on U.S. flag vessels.

Use of PSCs for project technical assistance was foreseen, discussed and approved in the Project Paper. The Mission should not be criticized for adhering to the Project Paper. Indeed, one reason for the initial delay in Project start-up was AID/W and Mission insistence on fully competed personal services contracts rather than utilization of a lesser competitive form of procurement. AID/Belize takes exception to

11

-28-

unsupported inference/opinion on page 1 stating that "AID/Belize's association with Porta-Kamp also influenced project procurement". The Mission feels the choice of words highly inappropriate. The Draft Report indicates that, with regard to office building and warehouse, non-competitive procedures were used. These procedures were invoked by the Mission in accordance with applicable regulations and the Mission relied on an A.I.D. Contracting Officer in Honduras to finalize the contracts, including the price. AID/Belize recognizes the need to achieve competition in all A.I.D.-financed contract awards; however, when the circumstances require, the Mission must occasionally use non-competitive modes which are fully sanctioned within existing contracting procedures.

AID/Belize has both complied with procurement rules and sought to compete all contracts to the extent feasible. Situations do arise when competition must defer to compelling circumstances. This is especially true in an overseas setting.

The Porta-Kamp housing procurement was achieved in accordance with A.I.D. HB 11, Chapter 3 host country contracting procedures. Although formal advertising was waived, the contract opportunity was conducted using HB 11, Chapter 3 - Informal Procurement Standards. The GOB selected the offer which was considered to be most advantageous. Had a better offer than Porta-Kamp been received, the GOB would have taken advantage of this opportunity. Thus, the inference that one procurement influenced another is unwarranted.

It is unclear why the Draft Report has included the three excerpts on page 19; however, they conclusively show that the Mission carried out its responsibility in monitoring proposed awards by a host country to assure that an award decision is supportable. AID/Belize can only assume from the excerpts that the Mission is exercising its monitoring role conscientiously. Hence the use of term "arm's length" on page 20 is unnecessary and, at least, provocative.

The reason for utilizing host country procurement of the Roads Project living quarters was to receive a fully furnished and equipped housing unit, ready to go. The RFP's were prepared in this manner since, as recognized support for the use of informal competitive procedures, the housing units were needed as soon as possible to coincide with urgent, in-country housing needs of project technical personnel.

The Draft Report, in this regard, can only be read as requiring each and every item of home furnishings to be procured separately, a procedure which would have been totally

70

-29-

incompatible with effective, immediate use of needed housing. These represent reasonable, conscientious Mission decisions to implement a project effectively and without delay. In short, the basic requirements for procurement were reasonably framed and calculated to achieve maximum beneficial impact for the Project.

Finally, The Draft Report states that A.I.D. procurement procedures were not used by AID/Belize. In every case mentioned, the Mission followed either A.I.D. direct contracting procedures or host country contracting procedures. Simply because waivers or informal procedures, as provided for in the regulations, were deemed necessary in the best interest of project implementation does not mean that "procurement procedures" were not used. Waivers are a recognized option in those procedures. The Mission stands by the procurement decisions made and finds the conclusion that payments for commodities occurred at "excessive prices" totally unsupported.

### 3. AID/BELIZE INVENTORY CONTROLS

Page 28 of the Draft Report states, "Due to inadequate internal controls, AID/Belize's non-expendable and expendable property was not being safeguarded from waste and abuse." AID/Belize considers this statement to be inappropriate. The Mission does not know of any waste and abuse of expendable and/or non-expendable property. A physical inventory of expendable and non-expendable property was recently completed. The inventory of non-expendable property included Mission-owned and project-funded property in the custody of the Mission. All non-expendable items were accounted for and necessary adjustments were made to location cards.

The Draft Report recommends the Mission "provide written guidance on the establishment and implementation of internal control procedures to safeguard AID/Belize's expendable and non-expendable property." AID/Belize agrees there existed a need for clear guidelines and tighter controls. This issue, however, has been addressed already. The Mission's May 20, 1987 response to the RAF reads in part, "USAID has prepared written guidance effective May 19, 1987 outlining procedures and internal control requirements governing expendable and non-expendable property. Included are project-funded Government of Belize-owned non-expendable property in the custody of USAID." This response went on further to say "a separate USAID Order No. 528.1 titled Requisitioning Supplies/Equipment/Services was issued February 27, 1987."

The Mission believes it has complied with Recommendation No. 3 (a) of the Draft Report and asks RIG/A/T to consider clearing the Recommendation.

11

-30-

Section Three of the Draft Report is critical of the Mission for not using the MOW equipment management system in the storage and issuance of the Caterpillar and Ford spare parts procured under the Roads Project. Instead, the Mission is utilizing the facilities of the local Caterpillar dealer (CEMCOL). USAID/Belize agrees that the use of a private organization to handle spare part control and issuance was not the ideal situation. Nevertheless, it was effective.

A strong influence in the decision not to use MOW facilities to store and issue spare parts was the since-retired LAC Chief Engineer who designed the Project. By letter of June 2, 1987, the Mission requested his comments on various sections of the RAFs. The retired LAC Chief Engineer answered by letter of June 16, 1987 stating,

"As far as I know the spare parts inventory system was never a target for improvement under the Project. The Central Shop was chaos. The World Bank had a project to improve the Central Shop, however, it was poorly designed and prospects for significant improvement appeared poor.

"The local Caterpillar tractor dealer had the capability to stock the spares for A.I.D. The cost of the spares was to have been maximum Contractor discounted with free stocking. This seemed to be the only sure way of having spare parts available. The Project was to 'build rural roads', and you need spares to get that done."

Finally, a Project evaluation study issued in January 1986 discussed the spare parts arrangement and stated

"The only alternative to this was to have the Project rent a warehouse, build storage bins, have a staff to disperse the parts, do the necessary accounting and reporting, and guard the facility. This was felt to be a more costly procedure and the Project Evaluation Team (PET) is in agreement with the method now in place. The PET feels that CEMCOL maintains adequate control of both the commingled and segregated spare parts."

A common measure of spare part effectiveness is the extent heavy equipment is deadlined for lengthy periods of time. In the case of the Roads Project, all heavy duty equipment (i.e., tractors, graders, loaders, dump trucks, tanker trucks, etc.) is presently operational. Equally significant is the fact there has not been any heavy duty equipment deadlined during the more than three years of Project operation, due to lack of spare parts. AID/Belize knows from experience deadlined equipment is a major problem in many similar type A.I.D.-financed construction projects in other countries.

-31-

To specifically illustrate the situation in Belize, the Mission quotes from a June 1987 "Central American Regional Transportation Study" prepared by Parsons Brinckerhoff International, Inc., New York:

"Responsibility for the maintenance and repair of roads in Belize is the responsibility of the Ministry of Works (MOW). To perform this task the MOW maintains a small fleet of construction equipment and operates a workshop in Belmopan. As was found throughout the region, the road equipment was for the most part inoperable, due in large part to the deficiencies of the workshop. No process existed for the rapid procurement of spare parts, workshop facilities and tools were inadequate for the functions of repair and maintenance of heavy equipment, and the shortcomings of management hampered the introduction of any serious improvements. Until recently it could not be claimed that any practical road maintenance was being carried out."

Notwithstanding the satisfactory performance of CEMCOL, the Mission agrees spare parts should be transferred to the MOW warehouse in Belmopan. AID/Belize is in the process of developing Stage II of the Project and with it a stronger emphasis on administrative training versus a first stage emphasis on Project initiation, implementation and on-the-job construction training. Accordingly, the Mission concurs fully with all elements of Recommendation Nos. 3-b, c, and d. Implementation of these Recommendations will take about six months. As stated in Recommendation No. 3-d, the Mission will have to assure itself of MOW physical capabilities, as well as arrange for necessary training in inventory and commodity control procedures. In the interim, the Mission and MOW will continue their arrangement with CEMCOL to handle Project-financed spare parts until such time as the transfer to Belmopan is effected.

The Draft Report questions the relationship between the MOW, CEMCOL and the Mission. Page 33 of the Draft Report reads in part, "...no legal contractual agreement existed between

91

-32-

CEMCO, the MOW and AID/Belize. Some sort of consignment contract stipulating legal ownership, rights, and recourse over the inventory in case of inappropriate sale, unauthorized disposition, or pilferage of inventory would have been appropriate under the circumstances." This statement is only partially correct. By letter of September 18, 1984 CEMCO agreed to provide a range of services regarding project-financed spare parts. The letter reads as follows:

"As an addendum to our quote for the supply of an initial inventory of Caterpillar spare parts, we would like to offer the following services at no additional cost to you.

- "1. We will physically hold, in our warehouse, the total stock, thus eliminating the need for you to invest in buildings and facilities.
- "2. Our personnel will manage the inventory to ensure correct and constant control of the usage of the parts. This will eliminate the need for you to hire, train and control personnel.
- "3. Parts will be issued only to previously specified members of your staff to eliminate loss of control.
- "4. We will maintain full insurance coverage while the parts are in our facilities, thus eliminating the possibility of loss during the project.
- "5. Completely separate administrative control will be kept of the inventory to allow constant availability of information for your inspection.
- "6. A regular listing of usage and other information will be provided to you for your added control and information.
- "7. Our own on-site inventory will be available to you at a duty-free rate to allow rapid delivery of items which are not held by yourselves. Listings of these parts used will also accompany the normal lists to give information on frequency of usage and additional management control.
- "8. Additional stock purchased in the future will enjoy the same pricing system and services we are offering now, thus allowing for budgeting ease in the future."

The above arrangement, which has worked well, covered the Caterpillar spare parts (\$279,553). CEMCO is handling also

91V

-33-

Ford spare parts (\$55,144) at no cost to either the MOW or AID/Belize. The arrangement covering the Ford spare parts is informal. Nevertheless, the results have been satisfactory. The Mission and MOW plan to formalize present arrangements with CEMCOL regarding the Ford spare parts.

Page 31 of the Draft Report claims \$347,000 of Project-financed spare parts were stored at the Caterpillar warehouse. The correct figure according to Mission's records is \$334,697.

Page 31 of the Draft Report also states "at least \$50,000 in Project-financed spare parts was issued by CEMCOL to unidentified or unauthorized personnel." AID/Belize asked the Auditors to send copies of applicable work papers, immediately checked the allegation and found it had no basis. The Mission agrees that several of the signatures on the issue slips were not very legible. However, AID/Belize determined all questioned issuances had been approved by the Mission and distributed to authorized personnel.

In addition to reviewing the \$50,000 (actual figure was \$51,818.40) of spare part issuances questioned by the Audit Team, the Mission did a complete reconciliation of all Project financed spare parts. This exercise consisted of (a) developing a master listing of all spare parts procured from project inception, (b) comparing the master listing with records maintained by CEMCOL, (c) reviewing each issue slip to determine if it had prior Mission approval, and (d) examining each issue slip to see if the issuance had been made to authorized personnel. CEMCOL's records were found to be generally accurate and consistent with those of the Mission. The Mission's written and, in certain instances, telephonic approvals (so noted on the issue slips) supported issuances. AID/Belize reviewed the issuances and concluded they had been made to authorized personnel. However, a need to have the issue slips prepared more carefully was noted. In many cases the writing was barely legible. In several instances, the writing was not strong enough to press through the original on the copy earmarked for the Mission. Where necessary, the original issue slips retained by CEMCOL were examined. In other cases, the Mission noted erroneous descriptions and part numbers on the issue slips. Thus, this reconciliation included having to review original documentation as well as CEMCOL card controls. Overall, CEMCOL inventory control procedures are impressive. Standard inventory practices are in place and monitored by CEMCOL supervisory staff. The storage area is neat and appears secure.

Project-financed Caterpillar spare parts are stored by CEMCOL together with identical, but non-A.I.D.-financed, Caterpillar

-34-

spare parts. The intermingling was due to an insufficient number of bins. As of June 30, 1987 Project-financed Caterpillar spare parts stored at CEMCOL amounted to \$159,256. A physical inventory was not done due to the intermingling. However, the Mission confirmed there were excess stocks for all categories of Project-financed Caterpillar spare parts.

AID/Belize inventoried the Project-financed Ford spare parts being stored by CEMCOL. As of June 30, 1987 the value of the Ford spare parts was \$35,012. A 100 percent check was done. Some discrepancies caused by parts not being placed in proper bins were found. These differences have been reconciled and all items located.

A complete inventory of all Project-financed spare parts will be done prior to the planned transfer to the MOW warehouse in Belmopan.

Page 33 of the Draft Report refers to a USAID/Honduras Financial Analyst's report of March 27, 1985 which recommended various corrective actions with respect to CEMCOL inventory controls. The Draft Report states "as of March 20, 1987 the date of our review of the inventory, the necessary corrections had not taken place." This statement is not true.

The following corrective actions were taken:

- CEMCOL reviewed in April 1985 differences between Actual and Kardex count and effected necessary adjustments.
- CEMCOL has increased its inventory controls.
- The nine batteries sent to the branch facility at Corozal have been returned in April 1985 to CEMCOL warehouse in Belize.
- A check in the amount of US\$840.62 representing a pricing error was paid to USAID on May 13, 1985.
- The Mission developed in April 1985 a more detailed form for distribution of spare parts.
- The Mission did periodic spot checks of CEMCOL's inventory controls.

Page 33 of the Draft Report stated "...the private firm's chief stock clerk stated that no one from AID/Belize reviewed the firm's inventory control system prior to delivery of the MOW's spare parts to the firm's warehouse, and that AID/Belize

-35-

personnel performed no physical inventory counts of the spare parts inventory as recommended by the USAID/Honduras Financial Analyst Team."

AID/Belize contacted CEMCOL personnel regarding the above statement. The President of Belize CEMCOL Limited took exception with the Auditors' presentation and advised by letter of July 6, 1987:

"TO WHOM IT MAY CONCERN

REF: U.S.A.I.D. AUDIT REPORT (DRAFT)  
PAGES 31 THROUGH 34 AS SHOWN TO ME

The following are my comments:

1. Spot checks were made at least twice monthly by Mr. Alex Powers during life of the project.
2. In addition, CEMCOL's Parts personnel performed spot checks on a continuous basis.
3. Statement that nobody reviewed the Inventory Control System prior to parts delivery is false. The system was reviewed, approved and adjusted to meet A.I.D.'s requirements by Messrs. Jonathan Mellen and Alex Powers, and the Washington Chief Engineer when the final procurement listing was drafted."

The Chief Stock Clerk referred to on page 33 of the Draft Report stated she had been quoted out of context in a letter dated July 15, 1987:

"TO WHOM IT MAY CONCERN

"With reference to the statement in the USAID draft audit report dated June 12, 1987 that the private firm's (Caterpillar CEMCOL) Chief Stock Clerk stated that no one from AID/Belize reviewed the firm's inventory control system prior to delivery of the Ministry of Works spare parts to the firm's warehouse and that AID/Belize personnel performed no physical inventory counts of the spare parts inventory as recommended by the USAID/Honduras financial analyst team, this statement is not correct.

"The facts are as follows:

- "1. Mr. Powers from USAID was present when the initial shipment of Caterpillar repair parts was delivered to

-36-

the Caterpillar warehouse facility and the procedure for inventory control was reviewed prior to these parts being received.

"2. In addition, Mr. Powers made periodic visits to the warehouse facility, at least twice a month, to receive repair parts for project equipment and at the same time checked on the inventory of the repair parts in the USAID project's stock.

"I did not make the statement listed above and I feel that I was misquoted."

Page 34 of the Draft Report reads in part "...hundreds of thousands of dollars in spare parts had not been readily accessible to the MOW for effective Project use." AID/Belize is not aware of the Project being hampered by the CEMCOL arrangement. Two of the six MOW District Superintendents were asked whether the CEMCOL arrangement had adversely affected Project implementation. The MOW District Superintendent of Corozal in a letter of July 13, 1987 stated:

"The support and cooperation given by the USAID road project to the Ministry of Works Corozal in the supply of mechanical spares and tyres for the USAID equipment in use by the Corozal Section of this Ministry has been very satisfactory.

"Because of the limited amount of funds allocated for spares by our Ministry, it becomes necessary at times to park some of our equipment in need of repairs, until spares could be obtained for same.

"However with the spares we have been receiving from the USAID road project from time to time, we find we are able to have our equipment in a state of readiness much earlier than before.

"This of course enables us to operate at peak maintenance level and to keep abreast of our projected monthly road maintenance program."

The MOW District Superintendent of Dangriga in a letter of July 13, 1987 stated: "Your support with tyres and other spare parts for the A.I.D. equipment attached to our section (i.e. Ford dump Truck, Pickup and CAT Grader) was exceptional. It is because of this support that our equipment is fully operational at this time."

-37-

#### 4. SHOP TOOLS AND SUPPLIES

The Draft Report is critical of the inventory controls regarding the Roads Project shop tools and supplies element. In addition, the Draft Report states "A responsible contractor advised us that he believed that thirty percent of the shop tools had been diverted or had disappeared."

The Mission agrees that inventory controls were not ideal and should have included more interim checks and balances. Nevertheless, and as demonstrated by a just-completed physical inventory, there was no widespread abuse. The following paragraphs should help in resolving some of the Auditors' concerns.

The shop tools and supplies arrived sporadically during the period December 17, 1984 - June 23, 1985. All total 207 boxes/crates of shop tools and supplies were received and cleared customs intact. Customs clearance entailed ensuring the number of boxes/cartons coincided with number cited on respective Bills of Lading. After Customs clearance, the boxes/crates were moved to the MOW Unallocated Stores Warehouse. Such warehouse was used by the MOW to temporarily store MOW titled items awaiting onward distribution.

PSC Project technicians opened the 207 boxes/crates upon arrival at the Unallocated Stores Warehouse to verify contents. The verifications were the basis for completing the receiving reports.

Ministry of Works (MOW) trucks transported the shop tools and supplies from the Unallocated Stores Warehouse located in Belize City to the MOW Central Warehouse in Belmopan. Distribution was made to the end-users in accordance with a plan prepared by the MOW. The MOW plan generally followed the AID/Belize proposed distribution plan of February 11, 1985. The final distribution plan was arrived at after a series of meetings between MOW and senior PSC Project technicians. The MOW transmitted on August 27, 1985 a copy of the final distribution to the Mission. Accompanying the August 27 letter were issue slip receipts signed by each end-user.

The only shop tools and supplies not issued from the MOW Central Warehouse in Belmopan were those issued from the Unallocated Stores Warehouse in Belize City to the PSC Project technicians. These withdrawals were in accordance with the AID/Belize February 11, 1985 proposal and the August 27, 1985 MOW response outlining actual distribution. It should be noted, the PSC technicians withdrew tools and supplies under the on-site supervision of the PSC Equipment Specialist. Each

-38-

PSC technician was required to sign a receipt listing all tools and supplies received. These receipts are on file in the office of the PSC Chief-of-Party.

Page 36 of the Draft Report states, "There was no evidence that the MOW approved the distribution plan to which the U.S. Contractors were also included as individual recipients of shop tools." As stated in the preceding paragraphs, there were a series of meetings to discuss the distribution plan proposed by the Mission. The final distribution plan as formulated and implemented by the MOW agreed in principle with that of the Mission and included the PSC technicians.

The MOW letter of August 27, 1985 demonstrates clearly that the MOW played a key role in administering and implementing the Project. In other words, the MOW shared in much of the decision making, contrary to what is implied throughout the Draft Report.

The MOW August 27, 1985 letter transmitting the final shop tool and supplies distribution listings plus issue slips reads as follows:

"Enclosed are the distribution lists and stores issue vouchers for the U.S.A.I.D. supplied Workshop tools.

"As discussed with you previously the tools were distributed in order of preference and necessity and taking into account the district work programs.

"As you are probably aware it was my decision to limit the district workshops to maintenance functions only and perform major repairs and overhauls in Belmopan, or in the districts, but using field teams from Belmopan who are more experienced.

"This would then limit the amount of new tooling required by the district workshop. This can be evidenced by the fact that some new tooling sent to district workshops is still in its original packing case as of today's date.

"It is my intention that tools should be used by experienced persons with the correct level of knowledge to properly take advantage of them. In most cases new tooling will motivate persons to use them who are not properly trained and this will only serve to damage new expensive tooling and possibly expensive equipment as well. The equipment supplied to us through the World Bank Scheme did not include hand tools and the Central Workshop in Belmopan was in bad shape in this regard.

6

-39-

"We have, as you have seen, nearly forty full-time machinists and mechanics including welders and body men in Belmopan and I had to distribute accordingly as per the enclosed lists.

"Hopefully this will assuage your superiors in Washington to some extent but I do not want my actions to have caused you any inconvenience. The equipment and tools are being used where the need is greatest and are being used very effectively."

AID/Belize planned to inventory items distributed to the field districts to ensure proper usage and distribution. An inventory was started in 1986 but not completed due to staffing deficiencies.

Notwithstanding the incomplete inventory exercise, the Mission believes the shop tools and supplies element of the Roads Project was being administered satisfactorily, given the close and active cooperation between MOW and Mission personnel. Consequently, the Mission was surprised to read statements in the RAFs and Draft Report about diversion, disappearance, waste, fraud and integrity.

As a result of these allegations, AID/Belize marshalled all available resources and physically inventoried shop tools and supplies.

The physical inventory was generally satisfactory, especially considering the fact that much of the shop tools had been in use for several years. Value of all items procured totalled \$198,537. The Mission inventoried \$161,046 and within the remaining difference, \$28,845 were expendable items (less than \$50) and \$4,207 items did not have a long usable life-span. This leaves a shortfall of \$4,439 which represents 2.2% of the total amount procured. The shortfall is being brought to the attention of the MOW for clarification.

The Mission does not understand the last paragraph on page 37 of the Draft Report wherein the A.I.D. Representative, Project Officer, and PSC Chief-of-Party reportedly discussed receipt, inventory and distribution of shop tools with respect to the Project Paper. Mission officials discussed the fact that the Project Paper did not provide for direct financing of a component within the project that would specifically establish an inventory system solely for the control and distribution of shop tools. It is our position that inventory controls and related record-keeping are inherent responsibilities of project management and implementation. What may have caused the confusion was the statement by the A.I.D. Representative that

-40-

the Project Paper did not specifically address the administration of spare parts. Please note the spare parts element of the Project is completely separate from the shop tools and supplies element.

The Mission believes it has addressed Recommendation Nos. 4-a and b and asks RIG/A/T to consider clearing them. AID/Belize will advise RIG/A/T on progress made in resolving Recommendation No. 4-c.

#### 5. ACCOUNTING PRACTICES OF AID/BELIZE

AID/Belize concurs with the finding and recommendation. The Mission is in the process of establishing a procedure for informal accounting records (cuff records) and is reconciling on a continuing basis USAID/Honduras accounting records maintained on AID/Belize's behalf. Once the Mission is satisfied these procedures are reliable and effective, RIG/A/T will be asked to consider clearing Recommendation Nos. 5-a and b.

#### 6. ACCOUNTING PRACTICES AND INTERNAL CONTROLS OF PROJECT RECIPIENTS

AID/Belize concurs with the finding and recommendation.

In addition to the corrective action cited on pages 47 and 48 of the Draft Report, the Mission has deducted from a Chamber voucher \$2,189 of ineligible costs, \$1,910 of questioned costs which could not be resolved, and \$5,643 of reimbursed costs for which records could not be reconstructed. Accordingly, RIG/A/T is requested to consider clearing Recommendation Nos. 6-b, c, d, and e.

Regarding Recommendation No. 6-a, the Mission agrees fully with the need to review the financial management practices and internal controls of all A.I.D.-financed recipients on a periodic basis. One approach being considered is the hiring of an additional Financial Analyst. AID/Belize will advise RIG/A/T when the Mission believes sufficient reviews have been done to warrant asking that Recommendation No. 6-a be cleared.

#### 7. DUTY FREE PURCHASES OF GASOLINE

AID/Belize concurs with the finding and recommendation. The present procedure is cumbersome and difficult to administer. The Mission is negotiating with Esso Standard Oil, S.A.

-41-

Limited, Belize a procedure which will simplify the program for all parties concerned and add to its overall efficiency. RIG/A/T will be advised periodically of our progress.

## 8. ADMINISTRATIVE PROCEDURES

AID/Belize considers much of the Administrative Procedures Section of the Draft Report to be inconsistent, incomplete and unreasonable.

The Mission agrees many of its administrative procedures and controls need to be improved. However, considerable progress has been made in the short period the Mission has been operational.

The Draft Report paints a picture of serious disarray, and this is not the case.

Perhaps the confusion is due to unrealistic expectations. Page 53 of the Draft Report acknowledges the recent establishment of the Mission. The page reads in part

"First, only six of the staff of 43 were U.S. direct-hires, most were host country, third-country nationals or dependents who were not familiar with A.I.D. policies and the way it does business. Secondly, the majority of AID/Belize's staff had been hired since April, 1985 and for most it was their first experience with A.I.D. More importantly, responsible senior management of AID/Belize had not effectively disseminated to the staff pertinent A.I.D. policies on preferred means of communicating, monitoring, record-keeping, and office responsibilities."

Conversely, page 58 of the Draft Report discusses the importance of defining responsibilities and reads in part,

"It is normal practice for A.I.D. Missions to define the responsibilities of each office so that employees are cognizant of the objectives, procedures and parameters required in order to effectively implement their daily tasks. For example, USAID/Honduras had issued Mission Orders that clearly defined the policies, procedures and responsibilities of each of its ten key offices. At AID/Belize several key positions were held by non-U.S. Direct Hires who were not familiar with A.I.D. policies and regulations."

-42-

USAID/Honduras was established in 1960. To compare, even indirectly, the administrative practices of AID/Belize with an established USAID of over 26 years is unreasonable and meaningless.

AID/Belize agrees with Recommendation Nos. 8-a, b, and c. The Mission has recently contracted with a senior-level A.I.D. retiree to develop a set of Mission Orders for day-to-day use. His assignment includes reviewing and incorporating existing Mission guidelines. Upon completion, RIG/A/T will be notified and asked that consideration be given to clearing Recommendation Nos. 8-a and b.

AID/Belize will be deciding in the near future which Mission Office will serve as the centralized focal point responsible for the management of Mission Orders.

Before discussing in more detail the Administrative Procedures Section of the Draft Report, the Mission would like to point out that it realized the need for a set of Mission Orders several months ago. Please refer to the last "Action Plan" as well as the last Internal Control Review prepared by the Mission and submitted to AID/Washington.

#### -- PROJECT IMPLEMENTATION LETTERS (PILs)

The Draft Report uses the Roads Project as evidence of inadequate use of PILs. In the background section of this response, the tendency to generalize was mentioned as a Draft Report weakness. The Draft Report presentation on PILs is an excellent example.

The Mission admits it should have, but did not, issue a PIL covering the spare parts procurement in question. Nevertheless, AID/Belize disagrees sharply with page 56 of the Draft Report which accuses the Mission of not consulting with the MOW about spare parts procurement. The Draft Report states, "In fact, AID/Belize executed the procurement without evidence that the Ministry made inputs or was consulted on the procurement." This statement is incorrect. The Mission consulted frequently with the MOW. Please refer to the former Minister of Works letter of July 14, 1987 which discussed procurement and relationship with the Mission. The letter reads in part:

"...there were many occasions when I held meetings at the USAID Office and my Ministry with Mr. Brashich, Mr. Jenkins and Mr. Powers. In fact, at two or three of these meetings at the USAID Office, Mr. McDonald was also present.

-43-

"There was always a close and good working relationship between myself and the USAID team. We kept in constant contact on all aspects on the programme of work being carried out."

Notwithstanding the Government of Belize inputs regarding the procurement of spare parts under the Roads Project, the Mission questions the citation of only one example as evidence of a general weakness. As stated in our response to RAF No. 1, the Mission makes substantial use of PILs -- for example, in both Project 505-0006 and 505-0007 fourteen PILs have been issued. Under Project 505-0005, 36 PILs have been issued, while under Project 505-0012, 31 PILs have been issued.

As RIG/A/T is aware, guidelines on the use of PILs are provided in HB 3, and apply to projects with Host Country governments. PILs are not required for HB 13 grantees or recipients of Cooperative Agreements. Nevertheless, to foster good coordination and communication with PVOs, the Mission utilized PILs for OPGs and Cooperative Agreements. For example, under the Cooperative Agreements with the Belize Chamber of Commerce and Industry, for Projects 505-0020 and 505-0027, the number of PILs issued have been 12 and 8, respectively. These are relatively new projects. In addition, the Mission had reviewed all OPGs, including those which are very small and found that, in most cases, PILs have been utilized.

Nevertheless, AID/Belize recognizes a continuing need for improvement in the utilization of PILs and is monitoring the entire portfolio. In this regard, the A.I.D. Representative issued Administrative Notice 23-87 on June 2, 1987, which reminds Office Chiefs and Project Officers to follow guidelines in Chapter 8 of HB 3, regarding the utilization of PILs. The Administrative Notice makes a special point of the importance of drafting and issuing PIL No. 1, the basic PIL, at the beginning of project implementation.

The last sentence of the first paragraph of page 56 of the Draft Report states, "The spare parts were consigned by AID/Belize to a for-profit firm rather than to the Ministry of Works resulting in unnecessary difficulties to obtain spare parts when needed, and a loss of internal control."

The Mission does not know of any "unnecessary difficulties" regarding the obtainment of spare parts. As stated in our response to allegations in Section Three of the Draft Report, two of the six MOW District Superintendents commented with respect to Project spare parts. These two letters are being repeated to emphasize the efficiency and effectiveness of the

-44-

spare parts program. Please note that spare parts were procured for use on the Roads Project equipment only and could not be used on other MOW equipment.

The MOW District Superintendent of Corozaal in letter of July 13 stated:

"The support and cooperation given by the USAID road project to the Ministry of Works Corozaal in the supply of mechanical spares and tyres for the USAID equipment in use by the Corozaal Section of this Ministry has been very satisfactory.

"Because of the limited amount of funds allocated for spares by our Ministry, it becomes necessary at times to park some of our equipment in need of repairs, until spares could be obtained for same.

"However with the spares we have been receiving from the USAID road project from time to time, we find we are able to have our equipment in a state of readiness much earlier than before.

"This of course enables us to operate at peak maintenance level and to keep abreast of our projected monthly road maintenance program."

The MOW District Superintendent of Dangriga in letter of July 13, 1987 stated: "Your support with tyres and other spare parts for the A.I.D. equipment attached to our section (i.e. Ford dump Truck, Pickup and Cat Grader) was exceptional. It is because of this support that our equipment is fully operational at this time."

With regard to loss of internal control, the Mission response to Section three of the Draft Report demonstrates clearly there was no loss of internal control.

#### -- CONDITIONS PRECEDENT

Once again the Draft Report takes an isolated instance and makes it appear to be a general weakness.

The Mission stated in its response to RAF No. 7 that it is very much aware of the importance and status of Project Conditions Precedent. Through oversight, the Conditions Precedent interim date under Project No. 505-0018 was not amended. However, this omission does not represent an across-the-board weakness.

-45-

AID/Belize agrees there is always room for improvement. Accordingly, the Mission issued an Administrative Notice dated June 22, 1987 outlining Mission responsibilities regarding fulfillment of Project Conditions Precedent. Also, the Administrative Notice adds a sixth item to the Project Officer's Checklist for Administrative Approval of Vouchers, whereby the Project Officer has to confirm fulfillment of applicable Conditions Precedent.

The Draft Report states \$124,874 were disbursed under Project 505-0018 subsequent to the cut-off date (March 31, 1986) for meeting two specific Conditions Precedent. In reviewing Mission files, AID/Belize found the \$124,874 represented three payments made to the Technical Assistance Contractor, PRAGMA Corporation. The first payment of \$34,718.62 covered costs incurred during March, 1986. The other two payments, \$39,218.24 and \$50,938.05, covered costs incurred for April and May 1986, respectively. Since the payment of \$34,718.62 was for costs incurred prior to March 31, 1986, the Mission believes the amount in question should be \$90,156 rather than \$124,874.

The two Conditions Precedent required time-phased action plans for the Government of Belize fiscal year beginning April 1986. It should be noted these two Conditions Precedent were interim requirements; the Project Grant Agreement was entered into on March 26, 1985 and the technical assistance contractor team (PRAGMA) was physically on board in January, 1986.

Mission staff was working closely with GOB officials and contractor representatives in formulating the required action plans. The Conditions Precedent were satisfied on July 14, 1986. The delay was due to the need for additional technical data. The Mission considered the rationale behind the delay in completing the action plans to be reasonable; thus, the Mission decided to permit additional time and not terminate the PRAGMA technical assistance contract. Through oversight, AID/Belize did not amend the Grant Agreement to reflect a time extension of applicable Conditions Precedent compliance.

#### -- OFFICE RESPONSIBILITIES

This section states office responsibilities "were not spelled out and disseminated to employees in a Mission Order." The Draft Report uses USAID/Honduras as an example of a Mission which had issued Mission Orders clearly defining the policies, procedures and responsibilities of its key offices. AID/Belize questioned earlier in this response the value of comparing the

9

-46-

administrative operations of a recently established Mission like AID/Belize with a large Mission such as USAID/Honduras established in 1960.

The record should show AID/Belize has periodically issued Mission Orders outlining office responsibilities in terms of who the Project Officers are and what officer is responsible for what projects. As stated earlier, the Mission recognized several months ago the need to develop a set of Mission Orders; the Mission has recently contracted with a senior-level A.I.D. retiree to develop such a set.

#### 9. INTEREST INCOME NEEDS TO BE REFUNDED

AID/Belize agrees with the spirit of the finding and recommendation. The Mission will seek confirmation regarding method of calculating interest and act accordingly. RIG/A/T will be advised periodically of our progress.

#### B. COMPLIANCE AND INTERNAL CONTROL

The Draft Reports states, "Finding No. 1 demonstrated that the AID/Belize Principal Officer may have exceeded delegated contracting authorities in seven instances for a cumulative amount of \$414,795 in over-obligations." AID/Belize suggests the statement be modified to exclude the two OPGs (see our response to Finding No. 1). Thus, the cumulative amount should be \$99,795 and not \$414,795.

The Draft Report states,

"Finding No. 2 illustrated that poor AID/Belize Procurement practices resulted in insufficient evidence to support management decisions for the acquisition of hundreds of thousands of dollars in goods and resources, and that higher prices were paid due to the lack of competition. Inventory controls for expendable, non-expendables, spare parts and shop tools were not adequate as discussed in Findings Nos. 3 and 4."

The Mission believes its responses to Draft Report Findings 2, 3 and 4 demonstrate that several of the Auditors' major allegations and conclusions cannot be substantiated. Furthermore, much of the confusion and misunderstanding could have been avoided if there had been more effective communication between the Audit Team and the A.I.D. Representative.

-47-

Also, the conclusions about administrative procedures should at least be qualified, taking into account Mission comments made in response to Section 8 of the Draft Report.

### C. OTHER PERTINENT MATTERS

The Draft Report states "the training program put in place and implemented by Project PSCs was inadequate and deficient" because of (1) "inadequate personnel resources devoted to the training objectives", (2) "the training program being implemented did not incorporate an accurate needs assessment" and, (3) "no formal testing mechanism was used."

The PP clearly demonstrates that training was to be on-the-job working experience by MOW personnel under the technical supervision of the expatriate project personnel. The technical capabilities of expatriate project personnel selected for this technical assistance component further emphasized the PP approach of on-the-job training.

To illustrate the extent of training accomplished, in excess of 8,400 man-hours of on-the-job training in road rehabilitation have been provided to 132 MOW employees by the PSC road specialists, and in excess of 2100 man-hours of on-the-job training have been provided in road equipment maintenance to 48 MOW employees. Also, in 1985 Belize CEMCOL provided the MOW with an intensive two-week training program on operation and maintenance of Caterpillar road equipment.

With respect to the three reasons mentioned above, the Mission would like to indicate that (1) a reassignment of Project personnel was accomplished which provided more manpower to the training effort and, (2) a training plan was initiated immediately after the 1985 evaluation was completed. However, the incorporation of an accurate needs assessment, as well as a formal testing mechanism within the training plan, was never considered since training was always identified as on-the-job, requiring no such formal steps. Furthermore, as evidenced in numerous memoranda from the A.I.D. Representative to the PSC Chief-of-Party contained in official files, the Mission placed much emphasis on the training objective.

The changes discussed above were undertaken by the Mission following a project evaluation conducted in August 1985. In addressing the issue of training, the Evaluation Report made the following constructive recommendations which were intended to enhance on-the-job training: (1) A formal training plan and associated schedule should be implemented for equipment maintenance; (2) More emphasis should be placed on road

-48-

maintenance training and MOW road maintenance scheduling to institute capable follow-up on roads already rehabilitated; and, (3) Personnel operational changes (which assign more manpower to training efforts) should be instituted. The Mission implemented these recommendations and continues to monitor this effort, providing input for further enhancement of the training program.

In reference to the statement in the Draft Report that "the lack of focus placed on the training objective of the project was due to disagreement among AID/Belize project officials and project PSCs concerning what objective should be given the higher priority, road construction or training", the Mission would like to draw attention to the evaluation conducted in November 1986, including its findings and conclusions. Special emphasis is given to Section IV, Evaluation Findings, particularly Finding No. 1 which states "the evaluation team confirmed that the major thrust of the project is TRAINING," followed by a discussion of the project training component. The Evaluation Team consisted of AID/Belize officials, Project PSCs, and MOW representatives. (Where, then, is the disagreement?)

The Draft Report further states that

"attainment of the Project's training objective was also impeded by AID/Belize's officials' decision to store Project Caterpillar and Ford spare parts at the warehouse of a private for-profit firm rather than working through the MOW's equipment management system and further building on the training base that had been provided under the World Bank project. As a result of this arrangement, training in the equipment management field was provided to a private for-profit firm rather than to MOW equipment management personnel who were the intended project beneficiaries."

The decision to store project spare parts at Belize CEMCOL was taken at the design stage upon the advice of the then LAC Chief Engineer. The utilization of Caterpillar's facilities for warehousing spare parts cannot be construed as providing training in the equipment management field to a private for-profit firm. Caterpillar was providing a service and was definitely not the recipient of training.

As regards to building on the World Bank's training base, the World Bank focused their inventory controls training on the MOW Central Workshop and not on the district shops. The AID/Belize Roads Project was supported logistically at the district level where the physical capability to warehouse spare parts did not

-49-

exist. Moreover, logistical support in terms of spare parts warehousing was considered an ancillary activity and not a major training objective.

#### DRAFT REPORT EXHIBITS

AID/Belize reviewed the photographs shown as Draft Report Exhibits and believes following comments are in order:

Exhibit No. 3 Page 1 of 3 - This is a photograph of Bridge Treadway purchased at considerable savings through the Excess Property Unit of AID/W. As of June 24, 1987, all but fifty of these pieces had been delivered to the job site where bridges are under construction. These 50 represent the balance of an original shipment of 1,100 pieces of treadway. Final delivery is expected within the next several weeks.

Exhibit No. 3 Page 2 of 3 - An inventory team of MOW employees recently segregated these excess property items which arrived from Germany unboxed.

Exhibit No. 3 Page 3 of 3 - This photograph shows some of the hardware (i.e., nuts, bolts, pins, washers, etc.) received for the Project's bridge construction. The wording under the photograph states "crates containing steel pinions and connectors lay exposed, uncatalogued and insecure." There were no pinions involved. Pinions, sometimes referred to as small gears or cogs, are not part of the excess property bridge sets. Complete documentation of excess property bridge components, including pictures and proper nomenclature, is included in Mission files.

The nuts, bolts, and pins shown in the photograph have since been placed in storage bins.

It should be noted that excess property bridge sets were kept in open storage in Germany (U.S. Army Excess) for over twenty years. All exposed surfaces (i.e., nuts, bolts, pins, etc.) were protected with a cosmoline coating to retard rusting.

AUDIT  
OF AID/BELIZE'S  
PORTFOLIO AND OPERATING EXPENSE

RECORD OF RIG/A/T COMMUNICATION EFFORTS 1/

<u>Date</u>	<u>Participants (Audit/Management)</u>	<u>Workpaper</u>
1/27/87	Entrance Conference <u>2/</u>	SC-6
1/28/87	Schwartz/Tanamly	SD-3, 7
1/28/87	Fields/Tanamly	SD-5, 1
1/30/87	Chong/Tanamly, Nagpaul, Merchant	SD-20, 3
2/20/87	Fields, Schwartz/Brashich, Lapera, Tanamly	SC-21
3/13/87	Fields/Tanamly	C-4
3/13/87	Fields, Schwartz, Chong/Tanamly	SD-39, 1
3/19/87	Fields/Brashich, Lapera	K-11
3/20/87	Fields, Duster/Brashich	N-21
3/20/87	Fields/Brashich	SD-48, 1
3/23/87	Fields, Duster/Brashich, Tanamly, Szadek, Canton	C-19
3/23/87	Fields/Brashich...RAF No. 1 <u>3/</u>	D-1
3/25/87	Schwartz/Brashich...RAFs No. <u>2</u> , 3 and 4	D-2
3/25/87	Fields/Brashich...RAF No. 5	D-5
3/25/87	Fields/Brashich	X-20
3/26/87	Kalhammer, Fields/Brashich, Tanamly, Lapera	C-8
3/27/87	Schwartz/Brashich...RAFs No. 6 and 7	D-6
3/27/87	Fields/Brashich...RAF No. 8	D-8
3/31/87	Fields/Brashich	N-30 & N-33
4/1/87	Schwartz/Tanamly	SD-51, 1
4/2/87	Fields/Brashich...RAF No. 9	D-9
4/2/87	Fields/Brashich...RAF No. 10	D-10
4/3/87	Fields/Brashich, Lapera	C-13
4/4/87	Fields/Brashich	C-13, 2
4/7/87	Fields/Brashich...RAF No. 11	D-11
4/7/87	Schwartz/Brashich...RAF No. 12	D-12
4/7/87	Fields/Brashich...RAF No. 13	D-13
4/22/87	Fields, Duster/Tanamly	C-14
5/4/87	Fields/Brashich...RAFs No. 14 through 18	D-14
5/11 & 12/87	Exit Conference <u>4/</u>	C-15

1/ Titles of key personnel: Kalhammer (Deputy RIG/A/T), Fields (Audit Manager), Schwartz (Auditor-in-Charge), Chong and Duster (Auditors), Brashich (Principal Officer), Lapera (Acting Deputy Principal Officer), Tanamly (Controller and Audit Liaison Officer).

- 2/ At the entrance conference, an audit liaison officer was named. A purpose of the audit liaison is to ensure that top management is informed, at all times, as to the status of an audit. The audit liaison was in contact with the audit team on a daily basis for more than 90 percent of the time.
- 3/ Even though the first Record of Audit Finding (RAF) was issued on March 23, 1987, AID/Belize had to be reminded on June 1, 1987 that it had yet to respond to any of the RAFs.
- 4/ In addition to all of the key personnel noted in 1/, above, this meeting was attended by RIG/A/T, Gothard.

LIST OF RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u> We recommend that AID/Belize request and obtain:	4
a) a review by and clarification from AID's Office of the General Counsel, the AID Directorate for Program and Management Services, and AID's Bureau for Latin America and the Caribbean on Redelegations of Authority No. 99.1.202, 133.3.1 and 149.1.1 and their renumbered successors; and	
b) a determination from AID's Associate Assistant to the Administrator for Management and subsequent ratification for \$99,795 in obligations for five awards that exceeded the contracting authorities of the AID/Belize Principal Officer.	
 <u>Recommendation No. 2</u> We recommend that AID/Belize:	 10
a) coordinate with the Bureau for Latin America and the Caribbean and formally designate a qualified procurement officer i) to provide training to the designated Mission procurement officer, develop procurement procedures, and ii) to make periodic visits to AID/Belize to ensure the efficient and effective implementation of the procurement systems;	
b) either abandon the Personal Services Contracting concept for the Roads and Bridges Project No. 505-0007 and, in coordination with the Government of Belize's Ministry of Works, procure the services of a reputable consulting firm to provide technical assistance for Phase II of the project; or	
c) realign the Personal Services Contractor team assigned to the Roads and Bridges Project No. 505-0007 so that a project team leader is named, and defined implementation and reporting responsibilities are established.	
 <u>Recommendation No. 3</u> We recommend that AID/Belize:	 18
a) provide written guidance on the establishment and implementation of internal control procedures to safeguard	

Page

- AID/Belize's expendable and non-expendable property, and make a physical inventory of all non-expendable and expendable property as a first step in setting up an adequate system;
- b) schedule and make, with the Government of Belize's Ministry of Works, an inventory of Caterpillar and Ford spare parts financed by Project No. 505-0007 located at the CEMCOL warehouse in Belize City, Belize, value the inventory, in coordination with the Ministry of Works, to determine the extent of losses, and transfer the inventory on-hand, and associated records, to the Ministry of Works;
  - c) ensure that a system providing for periodic inventory reviews is established that includes end-use verification practices; and
  - d) ensure that before the project-financed Caterpillar and Ford spare parts are transferred from the private firm's warehouse in Belize City to the Ministry of Works' main depot warehouse in Belmopan that,
    - i) AID/Belize project officials verify that the Ministry of Works has obtained additional storage hardware such as inventory bins, shelves, and drawers to properly organize, segregate, account for, and control the transferred-in inventory,
    - ii) Ministry of Works warehouse personnel receive a refresher course regarding appropriate AID accounting, inventory, and commodity control procedures.

Recommendation No. 4

22

We recommend that AID/Belize in conjunction with the Ministry of Works, Government of Belize:

- a) make a complete inventory of the shop tools procured under the Roads and Bridges Project No. 505-0007;
- b) reconcile the physical inventory to procurement documents and document the losses; and
- c) determine responsibility for any losses and issue bills of collection accordingly.

	<u>Page</u>
<u>Recommendation No. 5</u> We recommend that AID/Belize:	25
a) create informal accounting records; and	
b) install a system of periodic reconciliations with USAID/Honduras accounting records maintained on AID/Belize's behalf.	
 <u>Recommendation No. 6</u> We recommend that AID/Belize:	 28
a) plan and initiate reviews of management, accounting and internal controls for AID-financed recipients located in Belize;	
b) collect about \$1,000 in ineligible entertainment expense charged by Pride, Incorporated under Project No. 505-0033;	
c) require the Belize Chamber of Commerce and Industry to reconstruct accounting records for the \$200,000 grant under Project No. 505-0025, review the reconstructed records, and collect ineligible, unsupported and non-traceable cost claims. Payments under active Projects No. 505-0020 and 505-0027 should be suspended until this process is complete;	
d) collect from the Belize Chamber of Commerce and Industry \$2,892 in ineligible costs identified under Projects No. 505-0020 and 505-0027, and negotiate \$2,593 in questioned costs identified under these projects; and	
e) complete, and document in the official file, AID's certification that the Belize Chamber of Commerce and Industry is an eligible indigenous Private Voluntary Organization, including notification to AID's Bureau for Food for Peace and Voluntary Assistance in accordance with AID Handbook 3.	
 <u>Recommendation No. 7</u> We recommend that AID/Belize:	 31
a) in consultation with the United States Embassy in Belize, establish a system for obtaining gasoline coupons in bulk quantities;	

Page

- b) devise a signature list and roster of individuals and vehicles eligible to use gasoline coupons to make purchases for official use, and establish a signature list and roster of individuals, their authorized dependents, and vehicles eligible to use gasoline coupons to make purchases for private use; and
- c) establish a system that segregates the distribution of gasoline coupons for official vehicles from those made for privately-owned vehicles.

Recommendation No. 8

33

We recommend that AID/Belize:

- a) issue, in Mission Order format, working instructions and criteria on Project Implementation Letters, trip reports, conditions precedent, files management, and office responsibilities;
- b) review existing policy memoranda for relevance and re-issue in Mission Order format those policy memoranda that remain pertinent; and
- c) establish a centralized focal point responsible for the management of Mission Orders. This centralized entity should be held responsible for instituting a sequential numbering system for Mission Orders, and for controlling Mission Order issuances, cancellations or other modifications.

Recommendation No. 9

37

We recommend that AID/Belize recover an estimated \$21,931 in interest earned by the Belize Central Bank on \$687,500 in funds provided by the Belize Commercial Bank Discount Fund Project No. 505-0005 since October 1986.

102

REPORT DISTRIBUTION

	<u>No. of Copies</u>
Principal Officer, AID/Belize	5
AA/LAC	1
LAC/CAR/BGS Desk	1
Controller, USAID/Honduras	3
LAC/DP	1
LAC/GC	1
LAC/DR	1
LAC/CONT	1
LAC/RLAs	1
GAO/Panama Branch	1
AA/XA	2
XA/PR	1
LEG	1
GC	2
AA/M	2
M/FM/ASD	2
SAA/S&T/PO	1
FVA/PVC	2
PPC/CDIE	3
M/AAA/SER	2
M/SER/MO	1
M/SER./EOMS	1
IG	1
AIG/A	1
IG/PPO	2
IG/LC	1
IG/EMS/C&R	12
IG/II	1
RIG/II/T	1
Other RIG/As	1

106