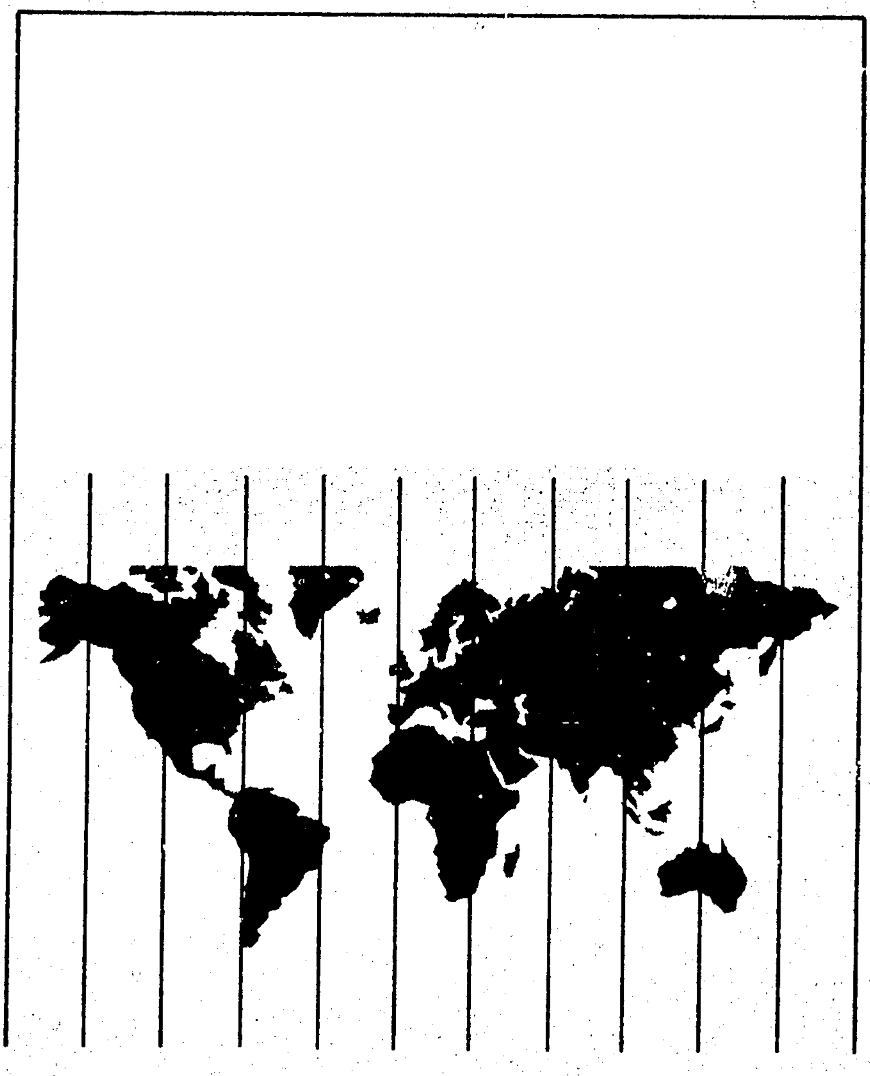
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL



Regional Inspector General for Audit

TEGUCIGALPA

PD-ABD-053

AUDIT OF USAID/DOMINICAN REPUBLIC'S AGRIBUSINESS PROMOTION PROJECT NO. 517-0186

Audit Report No. 1-517-91-010
July 26, 1991

USAID/Dominican Republic had adequate systems to ensure that (1) implementing entities established sound financial systems to account for loans, and (2) loan recipients undertake appropriate ventures. Although there was a system to monitor progress, it needs additional information and did not identify a potential deobligation or reprogramming of funds.

AGENCY FOR INTERNATIONAL DEVELOPMENT

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July 26, 1991

MEMORANDUM

TO: D/USAID/Dominican Republic, Raymond F. Rifenburg

FROM: RIG/A/Tegucigalpa, Reginald Howard R Howard

SUBJECT: Audit of USAID/Dominican Republic's Agribusiness Promotion Project No. 517-0186

Enclosed are five copies of the subject report. In preparing this report, we reviewed your comments on the draft report and included them as an appendix to this report. As a result of actions taken on the recommendation which appeared in our draft report, we are closing it upon issuance of this report. We appreciate the cooperation and courtesies extended to our staff during the audit.

Background

In 1985, USAID/Dominican Republic concluded that the Government of the Dominican Republic could not sustain economic growth through export of traditional crops. Consequently, the Mission developed a new strategy to assist the country to stimulate new investments and diversify its agricultural base.

The Agribusiness Promotion Project was designed to implement this new strategy by encouraging the expansion of the agribusiness sector. Its purposes are: (l) to establish a credit fund and provide technical advice to private agribusiness firms and their supporting industries that produce commodities for export and domestic markets; and (2) to improve the mechanisms and policy framework for promoting and financing agribusiness projects. The Project consists of a loan component and a grant component.

The loan component represents a program implemented by the Dominican Republic's Central Bank to establish a fund to be drawn on by participating financial institutions to provide capital for the expansion or establishment of private agribusiness enterprises. The loan agreement, dated August 23, 1985, obligated $17.3 million in A.I.D. assistance.

As originally contemplated, the grant component was to establish an agribusiness promotion program. An initial grant of $2.5 million was made to the Joint Agricultural Consultive Committee of the Dominican Republic (Joint Agricultural Committee) with amounts earmarked for various activities. USAID/Dominican Republic amended the Project in 1989 and increased the grant obligation to $5.5 million. The purpose of the Project remained basically the same but added focus was given to institutionally strengthening the Joint Agricultural Committee so that it could provide technical support to private agribusinesses and improve the policy framework within which they operate. The Joint Agricultural Committee has evolved into a membership organization, providing information, services and technical assistance to members.

Audit Objectives

We audited USAID/Dominican Republic's Agribusiness Promotion Project to answer the following audit objectives:

- Did USAID/Dominican Republic establish a system to monitor, evaluate and report the Project's implementation consistent with A.I.D. requirements?

- Has USAID/Dominican Republic established management systems to ensure that agribusinesses which receive loan funds undertake subprojects that comply with the terms of the loans?

- Does USAID/Dominican Republic have systems and procedures in place to ensure that implementing entities have established sound financial control systems to account for loan funds and loan repayments?

In answering these audit objectives, we tested whether USAID/Dominican Republic (1) followed applicable internal control procedures and (2) complied with certain provisions of laws, regulations, and agreements. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, because of limited time and resources,we did not continue testing when we found that, for the items tested, USAID/Dominican Republic followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work, when possible, to

- conclusively determine that USAID/Dominican Republic was not following a procedure or not complying with a legal requirement,
- identify the cause and effect of the problems, and
- make recommendations, if considered necessary, to correct the condition and cause of the problems.

Our discussion of the scope and methodology for this audit is in Appendix I and our reports on internal controls and compliance are Appendices III and IV respectively.

Audit Findings

Did USAID/Dominican Republic establish a system to monitor, evaluate and report the Project's implementation consistent with A.I.D. requirements?

USAID/Dominican Republic has established a system to monitor, evaluate and report the Project's implementation consistent with A.I.D. requirements but its monitoring process could be improved.

The monitoring and reporting responsibilities of project officers were adequately defined in a mission order. The Mission monitored implementation through a series of monthly, quarterly and semi-annual reviews. Site visits were encouraged, performed and reported. Financial reviews of the loan portfolio were made by local CPA firms. The Mission had a system in place to schedule evaluations.

But our audit found that the level of monitoring activity changed frequently during the life of the Project. Consequently, we (1) were unable to determine conclusively whether the project officers were consistently and adequately performing all their duties: particularly the gathering of timely information on inputs, outputs, and actions for the purpose of identifying and addressing issues; and (2) believe that these disruptions hindered the Mission's ability to promptly identify a potential for a deobligation or reprogramming of funds on the grant component of the Project.

Project Monitoring Has Been Inconsistent

A.I.D. Handbook 3, Chapter 11 stipulates that projects should be continuously monitored and the project officer has to establish a monitoring system sufficient to meet six precepts. Our audit found that the level of monitoring for this Project was inconsistent because of staffing shortages and turnover of personnel. The Mission reported inadequate staffing in its 1989 Internal Control Assessment, however, the staffing shortages were not satisfactorily resolved through calendar year 1990. As a result, Project files were incomplete and project officers did not have all the necessary information to monitor implementation.

Discussion

A.I.D. Handbook 3, Chapter 11 requires projects to be continuously monitored. It states that a system should enable the project officers to (1) monitor host country compliance with A.I.D. policies, procedures and regulations, (2) ensure timely and coordinated provision of A.I.D. financing and/or inputs, (3) gather timely information on inputs, outputs and actions which are critical to project success for the purpose of identifying potential problems or issues, (4) assure that A.I.D. financed commodities and services are utilized effectively to produce the intended benefits, (5) identify implementation problems, and (6) collect data and information for subsequent analysis and evaluations.

Staffing shortages disrupted monitoring of the Agribusiness Promotion Project. The Mission reported in its 1989 Internal Control Assessment that it was not adequately staffed to monitor and evaluate projects. Mission personnel stated that, during the life of this Project, monitoring was also disrupted on both components due to at least four changeovers in personnel as well as by the lack of adequate staffing resources. In late 1988, in an attempt to improve coverage, the responsibility for monitoring this Project was divided between two divisions of USAID/Dominican Republic: the Private Enterprise Division for the loan component and the Agriculture and Rural Development Division for the grant component. But staffing shortages continued to hinder monitoring of the Project. To illustrate, USAID/Dominican Republic personnel pointed out that;

- the staffing in the Agriculture and Rural Development Division decreased from five US direct hires to two in the past two years,

- the current project officer for the grant component had only assumed his duties in October 1990, and

- the Private Enterprise Division chief is currently acting as project officer on the loan component because of a vacancy in that division.

As a result of these disruptions, the Project files were somewhat incomplete and the personnel now responsible for Project management do not always receive sufficient information from the implementing entities. Such information would facilitate monitoring on both the loan and grant components.

Progress reporting by the Dominican Republic's Central Bank on the status of the loan component needs improvement. Based on our review of Project files as well as interviews with implementing entity officials, we conclude that the Mission has not been sufficiently aggressive in demanding that the Central Bank provide progress reports on a number of important Project actions. As examples:

- New Loans From "Reflows: Section 6.3 (b) of the Loan Agreement required the Central Bank to ensure that any principal repayments (or "reflows") are used for lines of credit which meet the original purpose and objectives of the Project. During our visits to participating financial institutions we learned that they have started issuing new loans from "reflows" of previous loans. Although some of these institutions have reported their activity to the Central Bank, this statistical information has not been consolidated and reported to USAID/Dominican Republic.

- Country of Origin on Purchases: In 1985, USAID/Dominican Republic required contracts between the Central Bank and participating financial institutions to include a clause requiring that goods and services procured by agribusinesses must come from the United States and the free world and that vehicles purchased under the Project must be of United States origin. Moreover, in 1986, the Mission required the Central Bank to maintain lists of commodities purchased with funds from each subloan. These lists were to indicate the type of equipment purchased, the cost, and the country from which the commodities were imported. From our visits to agribusinesses and participating financial institutions we learned that such information had been accumulated and furnished to the Central Bank. But we learned from officials at USAID/Dominican Republic and the Central Bank that it never had been reported to the USAID.

- Current Impact of the Loans: A.I.D. Handbook 3, Chapter 11E states that a project monitoring system should enable USAID personnel to collect data and information for subsequent analysis and evaluations. Although the Mission had been furnished forecasted data concerning the impact of the subloans early in the Project, it has not yet received factual information demonstrating a positive impact resulting from these subloans. The Central Bank has not furnished USAID/Dominican Republic information on foreign exchange generated or periodic progress reports on employment and other pertinent indicators that project objectives are being met by subloan activity. Official Project files did not contain this information.

- Long-term Use and Impact of Loans: Although the Project is scheduled to end in December 1992, the Mission does appear to have a longer-term monitoring responsibility for the loan funds. Annex 1 to the Loan Agreement states that the funds will remain with the participating financial institutions as a line of credit for a twelve-year period and be accounted for in special accounts. Subject to agreement by the parties, this line of credit could be extended for another twelve years. The institutions will be required to relend these funds to activities meeting the same eligibility criteria as the Project. Moreover, the institutions will be permitted to invest any excess funds in certain activities in the agricultural sector. Based on our review, we conclude that neither the Central Bank nor the Mission has established a provision to monitor this long-term requirement for use of loan funds.

Progress reporting by the Joint Agricultural Committee on the status of the grant component needs only minor refinements. The Joint Agricultural Committee has intermittently submitted some notices, proposed annual plans/budgets, bi-monthly magazines and annual reports to USAID/Dominican Republic. However, this information is not easy to assess and presents incomplete data on international travel and purchases of commodities and technical services. A regular (e.g., quarterly) submission of such information is desirable in that it would be more helpful in monitoring and documenting Project progress. It is our understanding that the Mission has recently engaged the services of an institutional/financial advisor to assist the Joint Agricultural Committee in establishing a management information system. This new system may be capable of producing the desired consolidated progress reports for the Mission.

Management Comments and Our Evaluation

USAID/Dominican Republic officials concurred with our observations concerning shortcomings in monitoring and reporting borrower activities. They stated that an upcoming impact evaluation would enable them to report on areas where our audit indicated an information gap existed. Also, the Mission's hiring of an advisor to assist the Joint Agricultural Committee in establishing a management information system should upgrade its reporting capabilities. For these reasons we did not make a recommendation applicable to this area in this report.

A Potential Deobligation of Project Funds Was Not Identified

A.I.D. Handbook 3 requires project officers to make a realistic forecast of estimated cost-to-complete versus funds available for major project elements. Our audit found that the project officers did not recently make these forecasts. As a result, a large deobligation of funds could be warranted or the excess funds could be reprogrammed to other grant activities.

> **Recommendation No. 1: We recommend that USAID/Dominican Republic review the Project budget to determine the current requirement for A.I.D. grant funds for the Joint Agricultural Committee, revise the financial plan, and deobligate funds determined to be in excess of requirements.**

USAID/Dominican Republic accounting records show a large balance of unexpended grant funds as of December 31, 1990. Although over 73 percent of the Project's life had elapsed as of that date, only 44 percent of the $5.5 million obligated grant funds had been disbursed:

Financial Status of Grant
as of December 31, 1990
(Unaudited Data)

Element	Amount ($Millions) Obligated	Disbursed	Unexpended
Joint Ag.Committee	$4.3	$ 1.8	$ 2.5
Assoc. of Dev. Banks	.1	.1	-
U.S. Trade Dev. Program	.1	.1	-
Secretary of Agriculture	.6	.1	.5
Agribusiness Advisor	.2	.2	-
Evaluation/Audit	.2	.1	.1
	$ 5.5	$ 2.4	$ 3.1

The largest portion -- $4.3 million -- of grant funds is obligated for the Joint Agricultural Committee. Such funds were to be used to contract for technical assistance services, to purchase vehicles and other equipment, to underwrite the staff and operational expenses, and to develop the organization's ability to generate revenues. The grant between the Joint Agricultural Committee and USAID/Dominican Republic anticipated that the organization eventually would become financially self-sufficient on the basis of fees generated from services provided to clients.

Subsequent developments indicate a partial deobligation of funds would be appropriate. For example:

- A November 1988 evaluation report noted that the Joint Agricultural Committee has a substantial 'surplus' account, accumulated from its revenues such as fees collected from its members. The report recommended that USAID should take this amount into consideration as a baseline for estimating any additional funds required. Our review of the Joint Agricultural Committee's financial statements for fiscal years 1987 - 89 indicates that this 'surplus' has been steadily increasing.

- Financial self-sufficiency may be achieved sooner than originally contemplated. A 1989 amendment to the grant anticipated that the Joint Agricultural Committee would have approximately 400 members by the completion of the Project. But by the end of 1990, the Joint Agricultural Committee indicated that it had already approximately 550 members. Mission officials expect membership to increase significantly during the current year. Moreover, the fee structure for membership significantly increased in mid-1990. The combined effects of these factors should enable the organization to increase revenues beyond original expectations.

- In 1989, the Joint Agricultural Committee agreed to a four-year financial plan with the Government of the Dominican Republic. In that plan, the parties anticipated that the Joint Agricultural Committee would not require A.I.D. funding during 1992.

We computed the magnitude of a potential deobligation of funds for the Joint Agricultural Committee using the percentage of the life-of-project elapsed as a basis. We estimated -- considering actual expenditure levels as well as known commitments -- a maximum amount of expenditures which could be necessary for USAID/Dominican Republic to fund operations of the Joint Agricultural Committee. This analysis showed that as much as $1 million could have been surplus on this particular element of the grant component.

A.I.D. Handbook 3, Chapter 11, Project Status Reporting, requires the project officer to prepare periodic Project Implementation Status Reports. One of the requirements for these reports is that the project officer make a realistic forecast of estimated cost-to-complete versus funds available for major project elements. In this manner, any excess funds in budget elements will be brought to the attention of management and prompt reprogramming/deobligation action can be initiated.

Our review of semi-annual reports, prepared by grant component project officers, determined that this type of analysis was not recently performed. Apparently, it was not performed because continual staffing shortages and personnel turnover occurring during the life of the Project disrupted the monitoring process.

At the time we completed our audit fieldwork in February 1991, the Joint Agricultural Committee had submitted a detailed budget for 1991 to USAID/Dominican Republic. The Mission advised us that it would analyze this budget to determine whether a portion of the grant funds should be deobligated or reprogrammed so that funds will be put to their most productive use.

Management Comments and Our Evaluation

In response to the recommendation in our draft report, USAID/Dominican Republic performed an analysis of the obligations, earmarks, commitments and disbursements for each element under the grant component of the Project. This analysis demonstrated that all obligated funds would likely be required to successfully complete the Project, but also that some reprogramming of funds would be appropriate. The Mission concluded, for example, that more funds than presently committed would be needed for a contractor; a recently submitted budget for one element would exceed present commitments; unneeded funds under one element would be reprogrammed to another element; and an evaluation and close-out audit would be performed to utilize remaining funds for this budget element. See Appendix II for a complete text of the Mission's analysis of funding requirements for the grant component of the Project.

We are satisfied that the Mission's analysis of the Project's budget meets the intent of our recommendation. The reprogramming should result in more effective utilization of remaining grant funds. Recommendation No. 1 is closed upon report issuance.

Has USAID/Dominican Republic established management systems to ensure that agribusinesses which receive loan funds undertake subprojects that comply with the terms of the loans?

For the items tested, USAID/Dominican Republic has established adequate management systems to ensure that agribusinesses which receive funds undertake subprojects that comply with the terms of the loans. Subloans were made to private Dominican firms and joint ventures for non-traditional agricultural, aquaculture or livestock export subprojects or high priority domestic agricultural subprojects which save or earn foreign exchange. Subprojects which provide key inputs or supportive infrastructure were also eligible.

Funds were not to be used for sugar, citrus, African palm or pesticide subprojects. In addition,no subloans were to be available for traditional exports such as coffee and cacao unless the commodity was processed in a non-traditional manner. Subloans were not to be made for subprojects unless there was at least 40 percent Dominican ownership. Subloans were not to be used to pay taxes, to refinance existing debt or to make equity investments.

Participating financial institutions reviewed proposed subprojects and certified that they met the eligibility criteria. Proposed subprojects were then reviewed by a committee comprised of representatives from the Central Bank, Joint Agricultural Committee, USAID/Dominican Republic, and the Government of the Dominican Republic. This committee reviewed the proposed subproject to determine whether it met the eligibility criteria. Implementing entities monitored these agribusinesses through site visits to ensure that they were complying with the terms of the subloans.

Does USAID/Dominican Republic have systems and procedures in place to ensure that implementing entities have established sound financial control systems to account for loan funds and loan repayments?

For the items tested, USAID/Dominican Republic has adequate systems and procedures in place to ensure that implementing entities have established sound financial control systems to account for loan funds and loan repayments. The Mission disbursed funds to the Central Bank, which in turn extended a line of credit to participating financial institutions.

During the life of the Project, the Mission initiated reviews of the financial control systems of the implementing entities at both the industry-wide and individual institution levels. Recognizing that there has been instability in the Dominican Republic banking industry, the Mission, in 1990, contracted a special study of the condition of the financial sector of the nation. This study identified specific problems at the Central Bank and other institutions and made recommendations for corrective actions.

USAID/Dominican Republic's project monitoring system also oversees the financial control systems of specific institutions by periodically using a banking industry advisor engaged as a personal services contractor on another project. For example, the advisor stated that he has been requested by Mission personnel to evaluate the viability and reliability of financial institutions which the Central Bank had considered for participation in the loan component of the Project.

The Mission's project monitoring system also relied upon surveys by independent accounting firms to assess the control systems of the implementing entities. It used the results of these surveys to require corrective actions at these entities. A recent example involves the Central Bank. In June 1990, the Mission received a RIG/A/T non-Federal audit report dealing with the financial controls of the Central Bank on another project. But that audit also identified deficiencies in the internal control structure of the Central Bank's oversight of participating financial institutions, including the adequacy of safeguards over documentation for loans and country of origin purchases with project funding. As a result of the audit report findings, the Mission suspended funding on all projects to the Central Bank until corrective actions were undertaken.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Dominican Republic's Agribusiness Promotion Project in accordance with generally accepted government audit standards. We conducted the audit from November 19 through December 4, 1990, and from February 8 through February 28, 1991. We covered the systems and procedures relating to project inputs financed by A.I.D. from August 23, 1985 (project inception) through December 31, 1990. As noted below, we conducted our field work in the offices of USAID/Dominican Republic, the Joint Agricultural Consultive Committee, the Central Bank implementing entity, participating financial institutions, and at subproject sites in the Dominican Republic.

The audit scope was limited as follows:

- The audit did not determine the level of USAID/Dominican Republic staffing which would be necessary to monitor the Agribusiness Promotion Project.

- The audit was limited to determining whether USAID/Dominican Republic established and followed the necessary management systems covered by our audit objectives. Therefore our audit covered only the systems and procedures at the Mission and did not evaluate those at the host country (Central Bank), grantee, participating financial institution, or agribusiness levels. Our visits to such entities were limited to the extent necessary to test the Mission's system and to determine the adverse effect of any deficiency.

- Because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Dominican Republic followed A.I.D. procedures and complied with legal requirements.

Methodology

The audit was made in accordance with generally accepted government auditing standards. The methodology for each audit objective follows:

Audit Objective One

To accomplish the first audit objective of determining whether USAID/Dominican Republic established a system to monitor, report and evaluate the Project's implementation, we (l) delineated the roles of the project officer, project committee, controller, division directors, mission director and others, (2) obtained the views of mission personnel about the effectiveness of the project monitoring system, including whether there were any obstacles to performing the required responsibilities, and (3) concluded whether significant weaknesses in the project management system prevented the Mission from complying with Handbook 3, Chapter 11, project monitoring precepts.

To test compliance with Section 621A of the Foreign Assistance Act requirements to establish a system which compares actual results with plans, we requested the USAID to provide the required progress reports from implementing activities. Then we visited the Central Bank and requested its reports on progress indicators. To verify that the Central Bank did obtain progress indicator data, we visited 11 participating financial institutions and 5 agribusinesses that had received loans. This sample was selected on a judgmental basis, namely, projections of large employment, foreign exchange, and various types of activities.

To assess Mission oversight of the Joint Agriculture Committee, we reviewed reports and other documents it sent to the USAID to report on technical assistance, international trip approval requests, and purchases of commodities. We interviewed the Joint Agriculture Committee Executive Director to ascertain the grantee's funding needs for the remainder of the Project, reviewed the Joint Agriculture Committee agreement with the host government on the forecast of funding from the USAID, and made a straight-line projection to estimate potentially excess funding. When making the projection, we relied upon computer-processed financial data contained in the Mission Accounting and Control System (MACS). The Mission uses this system to provide controls over budgets, expenditures, and other accounting transactions. We did not assess the reliability of this data. However, we believe that this data was sufficiently reliable to be used for the purpose of answering this audit objective.

Audit Objective Two

To accomplish the second objective, we determined whether (1) agribusinesses receiving funds qualified under the loan agreement, (2) subprojects were permitted by the loan agreement, and (3) the Mission had established a management system to oversee this process. To accomplish these ends, we interviewed responsible Mission, host country, participating financial institution, and agribusiness personnel. We examined the loan agreement, Central Bank reports, financial statements on selected agribusinesses and Mission correspondence.

Specifically, from a Central Bank 1986 list of 59 agribusinesses which had received loans, we selected 5 for review. We judgmentally selected them considering forecasted factors such as the number of jobs that would be created, the amount of foreign exchange that would be saved or earned, and the variety of agricultural products that would be grown. We visited the agribusiness sites to observe whether the funded crops, equipment, and buildings were in existence and to interview the agribusiness officials. We also coordinated these visits with visits to the Central bank and the respective participating financial institution to determine how these organizations assured that agribusinesses comply with loan terms.

Audit Objective Three

For the third objective, we determined whether the Mission (1) had procedures to assess implementing entities financial control systems, and (2) identified financial control problems at implementing entities. We examined contracts between the Central Bank and participating financial institutions, financial statements and CPA audit reports applicable to participating financial institutions, and reports from participating financial institutions to the Central Bank. We also interviewed responsible host country, participating financial institution, and Mission personnel.

Specifically we selected 11 of 32 participating financial institutions from a Central Bank January 1991 list. We judgmentally selected them considering the number of loans and their monetary value. We visited these institutions to ascertain whether they were audited by local CPA firms or by a host government agency. We also interviewed responsible Central Bank officials to determine how they ensured that these institutions had controls over Project funds and how the USAID participated in this process.

UNITED STATES GOVERNMENT

memorandum

DATE: July 1, 1991

Thomas F. Cornell

REPLY TO ATTN OF: Thomas F. Cornell, A/Mission Director, USAID/Dominican Republic

SUBJECT: Mission Response to the Draft Audit Report on Project No. 517-0186 Agribusiness Promotion

TO: Reginald Howard, RIG/A/Tegucigalpa

The following represents the Mission's response to the one recommendation and other observations presented in the above mentioned draft audit report. We were pleased with the balanced content if this draft report and appreciate the professionalism displayed by the audit team during this engagement.

Recommendation No. 1

"We recommend that USAID/Dominican Republic review the project budget to determine the current requirement for A.I.D. grant funds for JACC, revise the financial plan, and deobligate funds determined to be in excess of requirements."

This recommendation arose from a comparison between time elapsed in the Project (73% of the authorized project term) and the funds disbursed (44% of the amounts obligated) as of December 31, 1990. From the disparity between these rates and an extrapolation done to the end of the Project the RIG auditors estimated that there may be as much as $900,000 in surplus grant funds (page 16 of the draft report). The wording of this recommendation clearly indicates that deobligation decisions should not be made on the type of quick, inaccurate analysis presented above, but should be made as a result of a careful commitment by commitment analysis. The Mission has conducted such an analysis and it is presented as Exhibit I to this memorandum. We trust that the analysis and documentation presented in Exhibit I and its seven attachments satisfy the requirements of this audit recommendation. Accordingly, we request that it be closed upon issuance.

Loan Component

The Mission concurs with the RIG Auditors' observation that more consistent and regular monitoring of and reporting on borrowers' activities would have been desirable, and appreciates their recognition that staffing shortages were a significant factor in limiting the mission's capabilities in this area. We are pleased that the RIG auditors found that, despite the informal manner in which responsibilities in this area were sometimes carried out, all borrowers they contacted had in fact used loan funds for agreed upon purposes, and had used them effectively. We are also pleased to advise that we will shortly be initiating a comprehensive "impact evaluation" of the loan component of the project and that, through this exercise, we will be in a position to report definitively on virtually all the areas where the draft report indicates information gaps.

cc: K. Wiegand, ARD
R. Barnes, PED
T. Cornell, A/DIR
R. O'Leary, CONT

EXHIBIT I

Financial Analysis of the Grant Portion of Project No. 517-0186 As of June 30, 1991

The financial status of the Project is as follows:

(in $000s)

Element	Obligated	Earmarked	Committed	Disbursed
1. JACC	$4,337	$3,985	$3,046	$2,059
2. Assoc of Dev. Bank	76	76	76	76
3. U.S. Trade Dev. Prg.	47	47	47	47
4. Secretary of Agr.	650	663	663	165
5. Agribusiness Advisor	205	158	158	158
6. Evaluation/Audit	185	100	99	95
	$5,500	$5,029	$4,089	$2,600

The analysis focuses on all the Elements which are not fully disbursed: Element Nos. 1,4,5 and 6.

I. Element No. 1

Committed but not disbursed	$986,904
Earmarked but not committed	938,749
Obligated but not earmarked	351,967
Obligated but not disbursed	$2,277,620

A. Committed but not disbursed	
Chemonics Contract	$354,073
Ernst and Young	99,754
JACC Rev. Fund	533,077
	$986,904

Comments:

Chemonics' letter of June 13, 1991 (see Attachment No. 1) indicates that they believe that they will expend all funds related to their current contract (also in Attachment No. 1) by December of 1991 or January of 1992. In addition, the Mission has recorded $263,544 of June 30 accrued expenditures for unbilled costs incurred by Chemonics. The letter also mentions that after 1991 Chemonics will need more funding to continue assistance through the end of the Project (December 31, 1992).

The Ernst and Young (E&Y) contract was signed in early 1991 (see Attachment No. 2) so it is not surprising that its percentage of completion does not coincide with the time elapsed in the project. Work has began under this contract and the Mission received E&Y's first trip report on June 26, 1991.

The JACC revolving fund has both dollar and peso components. USAID recently advanced over $188,000 equivalent to JACC which is now in the process of being liquidated (and therefore recorded as expenditures). JACC recently submitted a budget to USAID for the six month period ended December 31, 1991 (see Attachment No. 3) which indicates that allowable project expenditures will exceed the current committed but undisbursed amount by the end of 1991.

B. Earmarked but not committed

Lab equipment and supplies	$739,850
Chemonics	187,000
Other	11,899
	$938,749

Comments:

The amount shown above for lab equipment and supplies represents the costs under one proposed contract. See Attachment No. 4 for the response from the firm which we expect will sign a contract to provide laboratory equipment and services. The construction of the laboratory, equipping it, and training the lab's personnel are critical to achieving the Project's goal and purpose, especially the objectives related to achieving financial self-sufficiency. The lab not only provides income for JACC (fee for service for soils testing and chemical residual analysis for plant and animal tissue), but provides an additional incentive for JACC membership, wherein additional quotas are generated. Our former Contracts Officer insisted that JACC handle all bid preparation, review of proposals, selection and contracting for this critical element. Since JACC was not experienced in handling a procurement of this size their performance of this action has been slow, however, there is no indication that the final contracted amount will be less than the amount budgeted. The laboratory is under construction and is due for completion within several months. These services and supplies would then be delivered, although commodity procurement would proceed immediately upon finalization of contract terms to enable timely clearance through customs.

Related to the discussion presented in I.A. above concerning the present Chemonics contract, the Mission has prepared a PIO/T (a reservation/earmark document shown as Attachment No. 5) for $187,000 to cover assistance services to JACC through the end of the Project. This earmark is expected to be signed as a commitment (a contract amendment) within the next months.

C. Obligated but not earmarked $351,967

The budget shown as Attachment No. 3 only covers the period through December of 1991, a full year before the end of the Project. The Mission fully expects to use the above funds to support JACC during 1992. Funds will be committed once an approved 1992 budget is accepted by the Mission.

II. Element No. 4

Committed but not disbursed	
2 USDA PASA Agreements	$383,632
APHIS Inspector Service	90,357
Support Costs	24,439
	$498,428

Comments:

Amounts are mostly committed through several contractual agreements with the U.S. Department of Agriculture (the two main agreements are presented as Attachment No. 6). These services will be required until the end of the Project and since amounts incurred are not precisely known and the USDA is extremely slow in billing AID under these agreements (last bill was in 1989), any decommintments in this element could result in violations of our funds control procedures if the USDA's billings exceed amounts reserved.

III. Element No. 5

Obligated but not disbursed $ 47,270

Comments:

These funds will not be needed in this element for the Agribusiness Advisor's contract since it has terminated and he has left the country. They will be reallocated to Element No. 1 and utilized as described in I.C. above (Attachment No. 7 documents this intention).

IV. Element No. 6

Obligated but not disbursed $ 90,395

Comments:

The Mission plans one more evaluation and probably a close-out audit. The amount shown above appears adequate to fund these proposed activities.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls for the audit objectives.

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives; and

- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer each of the three audit objectives and not to provide assurance on the internal control structure.

General Background on Internal Controls

The management of A.I.D., including USAID/Dominican Republic is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. This Integrity Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss and misuse; and reliable data is obtained, maintained and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect USAID/Dominican Republic's ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

Audit Objective One

The first audit objective was to determine whether USAID/Dominican Republic established a system to monitor, report and evaluate project implementation. When planning and performing our audit of the Mission project management system, we considered the applicable internal control policies for project monitoring, reporting and evaluation cited in A.I.D. Handbook 3 and relevant provisions in contracts, Grant Agreement, and Project Implementation Letters.

Our audit did not find any reportable conditions for this objective.

Audit Objective Two

This objective related to whether the Mission established management systems to ensure that agribusinesses which received loan funds undertook subprojects which complied with the terms of the loan. In planning and performing our audit of loans, we considered the applicable internal control policies contained in the

Project Agreement.

Our audit did not find any reportable conditions for this objective.

Audit Objective Three

Our final audit objective concerned whether the Mission had systems and procedures in place to ensure that implementing entities established sound financial control systems to account for loan funds and loan repayments. In planning and performing our audit for this objective, we considered the applicable internal control policies contained in the Project Agreement. We also considered the work done by independent accounting firms to assess the control system of implementing entities and a non-Federal audit concerning financial controls at the Central Bank.

Our audit did not find any reportable conditions for this objective.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Dominican Republic's compliance with applicable laws and regulations for the audit objectives.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we plan and perform the audit to fairly, objectively and reliably answer the audit objectives. Those standards also require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and

- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Not following internal control policies and procedures in the A.I.D. handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with laws, regulations and grants applicable to the Project is the overall responsibility of USAID/Dominican Republic's management. As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Dominican Republic's compliance with certain provisions of Section 621 A of the Foreign Assistance Act of 1961. However, our objective was not to provide an opinion on overall compliance with such provisions.

Conclusions on Compliance

The results of our tests of compliance indicate that, with respect to the items tested, USAID/Dominican Republic, complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/Dominican Republic had not complied, in all significant respects, with those provisions.

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