

SPECIAL AUDIT

Rural Development Commission

Introduction

A review of the operations of the Rural Development Commission was carried out in accordance with the provisions of the Financial Administration and Audit Act, Cap. 5. The audit covered a number of activities of the Commission from its inception in 1996 to 31st March 2005. The areas of activity audited included the following:-

- (i) Rural Enterprise Fund
- (ii) Housing Project
- (iii) Personnel
- (iv) Capital Works Program
- (v) Livestock Development Fund
- (vi) Poverty Eradication Program

Audit Objective

2. The objective of the audit was to ascertain whether the programs of the Rural Development Commission (RDC) were being administered in an effective and efficient manner and whether they conformed to the provisions of the Rural Development Commission Act, and other legal and administrative directives. The system of operations was also examined to determine whether the relevant controls were in place.

Audit Criteria

3. The audit criteria for assessing the above were as follows:-

- (i) Application of the Rural Development Commission Act;
- (ii) Application of the administrative rules and directives as determined by the Board of the Commission; and
- (iii) The employment of good business practices ensuring that expenditure is incurred on activities associated with the Commission's mandate, and with due regard to efficiency.

Methodology

4. Interviews and discussions were held with the Director, and other members of staff of the Commission. Accounting records, supporting schedules, Board minutes and relevant correspondence issued between the Commission and the Ministry of Agriculture and Rural Development were reviewed.

5. Site visits were also made to various projects and properties on which expenditure was incurred by the Commission. During these visits Audit personnel were accompanied by members of staff of the Commission.

Background

6. The Rural Development Commission (RDC) is a corporate body established in accordance with the provisions of the Rural Development Commission Act, Cap. 238.

7. The functions of the Commission as stated at Section 4 of the Act are as follows:-

- (i) to facilitate road improvement and the lighting of streets in rural districts of Barbados;
- (ii) to provide housing and ancillary services including the installation of sanitary facilities in rural areas;
- (iii) to provide assistance to small farmers in the areas of:-
 - Agricultural training and investment;
 - Equipment and machinery;
 - Production and marketing of agricultural produce
- (iv) to allocate land under the control of Government to persons desirous of farming;
- (v) to give assistance in the establishment and development of cottage industries in rural areas; and
- (vi) to do such other things as are necessary to effectively carry out the purposes of the Act.

CHAPTER 1

Rural Enterprise Fund

A Rural Enterprise Fund was set up by the Commission with the stated aims of reducing unemployment in the rural areas of Barbados through the development of a sustainable micro business sector, and to reduce the level of imports.

1.2 Areas of economic activity funded include vegetable production, a variety of retail operations and fishing. Based on information provided, five hundred and twenty-seven (527) loans with an approximate value of \$4.5 million were approved and disbursed to various individuals at 31st March 2005.

Summary of Findings

1.3. The findings of the audit review can be summarized as follows:-

- (i) The RDC has provided hundreds of persons in the rural communities with loans to assist with the establishment and operation of a variety of enterprises.
- (ii) The RDC has failed to take early effective action to manage the risks associated with its loan portfolio resulting in a steady build up of arrears.
- (iii) The Commission has on occasion accepted inadequate security for loans granted. Thus exposing some of its funds to high risks.

- (iv) The RDC does not have procedures in place to measure and report on the effectiveness of the Fund. Data was not collected and analysed in order to determine the extent to which the RDC is achieving its core objectives.

Loan Arrears

1.4. The audit revealed that the management of the loan portfolio was weak. The records show that approximately 45% of the loan accounts were in arrears and the outstanding balances were steadily increasing. As at 31st March 2005 arrears were shown as \$881,755.44.

1.5 The RDC has been tardy in taking steps to effect recovery of outstanding amounts. After lengthy delays, one hundred and thirty-five (135) accounts totaling approximately \$0.79 million were referred to the lawyer appointed by the Commission. The resulting effect was that sixteen (16) loans were paid off. However, there were eighty-six (86) of these accounts in arrears at 31st March 2005.

1.6. The evidence available suggests that the RDC has not been as efficient as it ought to be with respect to ensuring that clients meet their repayment obligations. The Commission's failure in this area of activity impacts adversely on its ability to use funds repaid for lending to new clients. In order to maintain the Fund and continue to make disbursements further capital injections are required.

1.7 Commission's Response

Initially some difficulties were experienced in managing the portfolio due to a shortage of manpower. However, the following steps have been taken to address the situation:-

- (a) *In 2001 the staff complement was increased from one (1) person to four (4) persons with two (2) persons concentrating exclusively on collections.*
- (b) *Personnel have also been trained in debt collection through relevant seminars and workshops.*
- (c) *Special software has now been installed to monitor and assist in managing the portfolio and is expected to be in operation shortly.*
- (d) *In late 2005, Field Officers were assigned responsibility for various areas across rural Barbados to monitor the progress of projects that were funded.*

Loan Security

1.8 The RDC's loan security requirements currently include acceptance of promissory notes, guarantors, assignment of sales proceeds and bills of sale on household appliances. Investigations however revealed deficiencies in the security arrangements made with respect to a number of loans. Examples are shown below:-

- (i) A Bill of Sale on a vehicle was used as security for a loan of \$10,000, the applicant defaulted and subsequent enquiries revealed that the insurance policy had never been assigned to the Commission.

- (ii) A loan of \$10,000 was approved and a Bill of Sale on household appliances was used as security. However, the documents were not prepared and as a result the disbursements were made without any security being in place.
- (iii) A loan of \$10,000 was granted to an applicant and security was agreed to be by way of a Bill of Sale on a vehicle. A different vehicle was purchased and as a result there was no valid security in place.
- (iv) A loan of \$20,000 was granted to an applicant and an insurance policy was accepted as security. The insurance policy subsequently lapsed due to non-payment resulting in the RDC having no security. The loan funds were fully disbursed and no repayments have been made.
- (v) Loans of \$35,048.22 were made to an applicant. Despite the magnitude of the loan only a promissory note and a personal guarantee were accepted as security.

1.9. In addition to the above, a loan was granted to an applicant who was indebted to numerous financial institutions and there was a “Letter of a Notice of Intention to Apply for a Warrant of Committal” from the High Court against him.

1.10 Despite the circumstances outlined above and the acknowledgement in the loan assessment that the loan was high risk, the applicant was granted the loan with only a promissory note as security. Furthermore, the applicant received a supplementary loan of \$6,786.34 six months after the original loan was granted.

1.11 The applicant defaulted on the loan even after it was restructured to accommodate him. The high risk posed by the applicant did not seem to be factored into the conditions attached to the loan, and the security accepted was totally inadequate under the circumstances.

1.12 The above examples suggest that the Commission did not always exercise due care and diligence in ensuring that adequate loan security was always put in place.

Commission's Response

The security requirements for loans included Mortgages, Bills of Sale on assets, Insurance Policies, Assignments of Sales Proceeds, Guarantors' agreements and other instruments. However, the Commission is cognizant of its role in alleviating poverty and has not been in the practice of foreclosing against defaulting clients. In addition, in some cases further expenditure may result especially in the case of the storage and protection of household appliances and equipment. Court action is also being taken against defaulters.

Performance Measurement

1.13 The Commission has specific goals with respect to the Enterprise Fund. These goals include a reduction in the unemployment that exists in rural areas through the development of a sustainable micro business sector and a reduction of the level of imports. At 31st March 2005 the Commission had loaned approximately \$4.5 million under the Scheme. The approximate distribution was as follows:-

| Year | No. of Loans | Amount \$ |
|--------------|---------------------|----------------------|
| 1996 - 1997 | 11 | 114,345.00 |
| 1997 - 1998 | 78 | 436,060.00 |
| 1998 - 1999 | 94 | 871,759.28 |
| 1999 - 2000 | 26 | 207,410.00 |
| 2000 - 2001 | 44 | 451,478.75 |
| 2001 - 2002 | 65 | 552,163.11 |
| 2002 - 2003 | 58 | 472,637.25 |
| 2003 - 2004 | 50 | 627,117.83 |
| 2004 - 2005 | 101 | 827,818.01 |
| Total | 527 | 4,560,789.23 |

1.14. The RDC was however, not in a position to determine how successful it has been in achieving its stated objectives since relevant data is not being collected and analyzed for this purpose. Data relating to job creation, vegetable production output etc. would be required for evaluating the success or otherwise of its operations.

1.15 *Commission's Response*

- (a) *The Commission recognizes the importance that the development of rural enterprise will play in its future program.*

- (b) *A restructuring exercise is currently being undertaken with a view to addressing the resource needs in areas which are inadequate. It is expected that coming out of this exercise measures will be instituted to ensure that proper research and analysis are undertaken.*

- (c) *During the next financial year an impact assessment study will be carried out for the first 10 years of the scheme's operations.*

Other Issues

1.16 In several cases, the loan proposal documents, as approved, specified repayment by means of salary deduction or standing orders. Salary deduction and standing order agreements are considered reliable methods of collecting funds. It was observed however that these agreements were not always implemented although agreed upon and some of the loans subsequently fell into arrears.

1.17 An applicant received a loan of \$10,000 for modifying a fishing boat. According to a site visit report the applicant is reported to have said that the boat had been destroyed at sea and he was awaiting an insurance settlement. The Bill of Sale relating to this loan could not be located when requested. The RDC needs to take follow-up action on this matter.

1.18 ***Commission's Response***

The Commission indicated that the oversights were being addressed and court action will be taken if necessary.

Recommendations

1.19 Recommendations are as follows: -

- (i) Where the Commission has approved loans of substantially high value, consideration should be given to releasing funds in installments after being satisfied that progress fairly

represents the value of any previous disbursement.

- (ii) All loans should be adequately secured in order to reduce the risk of loss to the RDC and, greater emphasis should be placed on managing the Commission's loan portfolio in order to minimize the possibility of escalating arrears.
- (iii) The RDC should consider utilising debt collectors in order to improve the collection of outstanding monies. This would be in addition to utilizing the services of attorneys-at-law.
- (iv) The RDC should institute a review of the performance of the Fund and establish specific performance targets for the future. The monitoring and reporting on these targets are necessary to provide accountability for the spending of the Commission's monies.

CHAPTER 2

Housing Project

Background

The Cabinet, at its meeting of 13th September 2001, agreed to transfer aspects of the Welfare Housing functions of the National Assistance Board (NAB) to the Commission effective 1st April 2002. In this regard the NAB transferred ownership of approximately three hundred and three (303) houses to the RDC.

2.2 The programs of the NAB had included the provision of Welfare Housing services to the indigent and old age persons in Barbados. Chattel houses were loaned at no cost to beneficiaries for the period of their lifetime and the NAB retained the right, as the situation demanded, to repossess and arrange for other qualifying persons to benefit from their use. Under their house repair program, the NAB assumed responsibility for all repairs but the occupants were required to pay for all utility services. These houses were transferred to the RDC and integrated into its existing program.

Summary of Findings

2.3 The findings of the audit review can be summarized as follows:-

- The RDC was not consistently following its established policy with respect to the transfer of houses in situations where the occupant to whom the house was loaned had died.

- It was observed that individuals who do not have legitimate ownership claims to houses have assumed “landlord” status and are renting out a number of units.
- A significant number of houses transferred to the Commission from the NAB were not adequately maintained. A number of houses were in a state of disrepair.
- Some houses were not adequately insured, while Insurance premiums were being paid on a number of derelict and abandoned buildings.
- The Commission did not have sufficiently up-to-date information on its houses and their condition to effect timely decision making.

House Ownership

2.4 Under the NAB’s Housing Program houses were considered rolling stock and were at all times owned and controlled by that Board. Beneficiaries of houses signed a “Contract for Loan of Board Unit”. The contract included the following clauses:-

Paragraph (2)(1) “This Licence shall be exclusive to the Licensee and shall be granted for the duration of the period during which this licence is deemed by this Board to be in a state of need. A review will be made annually by the Board, and should the Licensee’s circumstances be considered by the Board to have improved to the point where alternative accommodation can be afforded by the Licensee, the Board will give one month’s notice to revoke the Licence.”

Paragraph (3)(5) “The Licence is personal to the Licensee and shall not be capable of being assigned or otherwise disposed of other than by way of surrender to the Grantor. At the death of the Licensee the premises immediately reverts to the Grantor.”

2.5 The RDC has an arrangement in place, which allows the client to use and occupy houses built by the Commission for the term of the occupant’s natural life or a period of not less than ten (10) years at no cost to the occupant. In the event that a beneficiary dies the Commission retains the right of ownership and the house remains as part of its housing pool.

2.6 The Audit Office carried out a review on the status of forty-four (44) houses transferred to the RDC. Of these houses nine were reassigned without a Life Agreement being in place. In these instances it was not clear whether the houses still remained the property of the Commission or if ownership was transferred to the assignees as a result of the omissions.

House Repairs

2.7 In August and September 2005, forty-four (44) houses were selected for physical audit inspection and site visits were carried out in the presence of an officer of the Commission. The inspections revealed that a number of houses were in a state of disrepair, some were occupied by unauthorised persons and in a few cases some were unoccupied. The following are examples:-

- Information received from the site visits suggests that some houses were occupied by squatters.
- Occupants of some houses indicated that they were renting the houses from individuals

- A number of houses visited were vacant and one particular house could not be located.
- Several houses visited were found to be in a state of disrepair.

2.8 Commission's Response

- (i) *All houses under the RDC fall within the scope of the policy established by the Commission in September 1999. Under this policy where the RDC provides a complete unit, the Commission retains ownership of the property for the first 10 years and the beneficiaries must sign an agreement to reflect this requirement*

Your comments that nine (9) houses transferred from the National Assistance Board had been transferred to new occupants without a licence being in place are accepted. The Commission is currently trying to regularize the situation by putting the necessary certificates in place.

- (ii) *The Commission has sought and is awaiting legal advice on how to deal with illegal occupants of the units.*
- (iii) *About 35 units of the houses taken over from the NAB have been repaired.*

Insurance Premiums

2.9 Insurance premiums were not paid for NAB houses at the time of transfer to the RDC. In July 2004 a limited number of properties were insured. No proper evaluations were carried out before insurance was effected and for several years the majority of the houses were not insured.

2.10 It was observed that during the period in which few properties were insured at least two uninsured properties were destroyed by fire.

2.11 The two houses referred to above were transferred to the RDC from the NAB. At the time of destruction the houses were not insured and as a result no compensation could be obtained. It should be noted that after their destruction these houses were subsequently insured.

2.12 With respect to the values used for insurance purposes, it was not clear how values were determined since there were significant disparities in values as determined by the Technical Supervisor, the person responsible for valuing the properties, when compared with the values insured. Adequate values need to be provided for these houses for insurance purposes in the future.

2.13 Commission's Response

- (i) *During the financial year 2004-2005, the Commission identified 248 of its housing units for repairs, transfer or replacement. A program was put in place to address those cases over a 3-year period. Seventy-eight units were targeted for the first year. About 35 of the units have been repaired since taken over from the National Assistance Board (NAB).*

- (ii) *With the advent of Hurricane Ivan, a Cabinet decision was taken to utilise the funds available to assist with rehabilitating those residences adversely affected in the disaster. Subsequently, the funds have been returned by the Ministry of Home Affairs. Since then, the repair program for RDC houses has begun.*

- (iii) *The Commission, in an effort to prevent losses in the case of disaster or destruction, decided in 2004 to insure all houses on record since these units were without proper insurance coverage for a considerable time. However, since then the list is pruned and once the state of a unit is discovered to be worthless, that unit is removed from coverage.*

Recommendations

2.14

Recommendations are as follows:-

- (i) Proper and efficient management of the housing project is required. This would entail annual site visits, keeping an up-to-date inventory which would include information relating to the condition of each property and records of remedial action recommended and undertaken.

- (ii) Regular maintenance should be carried out on properties to avoid houses reaching a dilapidated state.

- (iii) The values of properties should be reassessed and brought up-to-date for insurances purposes.

- (iv) The Commission needs to consistently apply its policies with respect to the issuance of Life Licences.

CHAPTER 3

Personnel

A review of the staffing arrangements of the Commission was carried out. The objective of the audit was to determine whether the practices relating to the creation and establishment of posts conformed to statutory requirements and the directive of the Cabinet.

Audit Criteria

3.2. The audit criteria for evaluating the objective were as follows:-

- To determine whether the names and number of posts in existence at the Commission were in agreement with those posts created by the Ministry of the Civil Service.
- To verify that posts created were approved and sanctioned by the Minister in writing, in accordance with the provisions of the RDC Act.

Background

3.3. The Rural Development Commission Act makes provision for the Commission to appoint and employ such officers and servants as considered necessary for the proper carrying into effect of the Act. The Act also provides that remuneration, terms and conditions must be approved by the Minister in writing.

3.4. The Cabinet at its meeting of 26th April 2001 directed that where institutions depend in whole or in part on the Consolidated Fund, input and prior approval for new posts must be sought from the Ministry of the Civil Service for the creation of the post before the relevant appointments are made.

3.5. The RDC currently has a total staff complement of forty-two (42) officers, occupying both permanent and temporary positions.

Findings

3.6. The findings of the audit review were as follows:-

3.7. The Minister's approval in writing was not seen for several of the appointments to posts at the Commission. It was also observed that a number of positions, both permanent and temporary, were not approved by the Ministry of the Civil Service. Letters of appointment were nevertheless issued to persons to fill the positions. The posts are as follows:-

| Posts | Salary Scale |
|------------------------|---------------------|
| 5 Clerical Officers | Z 38-24 |
| 1 Field Officer | Z 23-17 |
| 1 Technical Officer | Z 10-6 |
| 1 Welfare Officer | Z16-11 |
| 1 Technical Supervisor | Z10-1 |

Transfer of Staff from NAB

3.8. The Cabinet agreed that four staff members at the National Assistance Board should be transferred to the Commission from 1st April 2002. The Cabinet further agreed that the Ministry of the Civil Service should advise on the procedures for the transfer of personnel.

3.9. It was agreed by the Cabinet that transfers would take place from the 2002/2003 financial year. To date the decision of the Cabinet has not been implemented.

Field Officers

3.10. There are nine (9) posts of Field Officer at the Commission. There are however, ten persons permanently appointed to the post of Field Officer. This situation needs to be regularized.

Clerical Officers

3.11. As with the Field Officers, two (2) posts of Clerical Officer have been created. There are however seven (7) Clerical Officers currently employed by the Commission.

3.12 Information was requested from the Ministry of Agriculture and Rural Development to assist with clarifying the number of posts created and approved by the Minister as required by the Act. However, at the time of writing, no response was received from the Ministry.

3.13 Commission's Response

The recommendations are all accepted and the situation will be regularized.

Recommendations

3.14

The following recommendations are made:-

- (i) The RDC should adhere to stipulated procedures for the creation of posts and the appointment of personnel. Recruitment practices should be in compliance with the RDC Act and the directives of the Cabinet. This would also ensure that persons are not disadvantaged when seeking retirement benefits.
- (ii) The Ministry of the Civil Service should take the necessary steps to give effect to the transfer of the personnel from the National Assistance Board.
- (iii) Steps should be taken to regularize the situation relating to the Field Officer and Clerical Officer positions.

CHAPTER 4

Capital Works Program

The activities of the Commission, in accordance with the provisions of the Act, include facilitating road improvement and street lighting in rural districts of Barbados. The RDC implemented a program whereby a number of roads were improved and/or constructed. A review of this capital works program was carried out.

4.2. The program commenced in the 1996-97 financial year and between April 1996 to March 2005, the records of the RDC show that approximately \$18.2 million was expended on road construction and road improvements during this period.

4.3. The Road Works Program has especially benefited many homeowners and has enhanced the quality of their lives. The improvements allow for easy and comfortable pedestrian and vehicular access.

Summary of Findings

4.4. A summary of the audit findings are as follows:-

- The RDC had improved and/or constructed one hundred and thirty-five (135) roads of which forty-three (43) were concrete roads and eighty-three (83) were asphalt roads. In addition, nine (9) minor roads and footpaths were constructed.
- The Commission was not compiling information relating to landowners affected as a result of road construction. As a result

a complete list of those persons affected was not available.

- The Commission has outstanding liabilities with respect to land utilized but it is unable to quantify these liabilities.
- Although land has been utilized from private landowners the acquisition process has not been followed as required by the Laws of Barbados, and the lands have not been vested in the Crown.
- In some cases the tenant rather than the landowners gave permission for land to be utilized.

Background

4.5. In order to build or improve roads, it is often necessary for the Commission to utilize land from private landowners. Land can be acquired by private treaty or by way of compulsory acquisition. The Ministry of Housing and Lands has responsibility for land acquisition on behalf of the Crown.

4.6. Prior to the commencement of road construction, the Field Officers of the Commission attempt to identify the owners from whom areas of land may be required. The landowners and/or tenants are notified of pending road improvements by the distribution of letters. A "Survey Form" is also sent to property owners requesting their agreement to the use of land identified as being required for road widening and/or the sinking of wells.

4.7. It was observed that some of the survey forms sent out by the Commission were completed by the tenants rather than landowners. There was no evidence that the Commission took follow up action to identify the owners of these lands and obtain their permission.

Compensation for Land Acquisition

4.8. After taking possession of lands identified, the RDC compensated some landowners. The Commission was requested to submit information relating to roads built and the number of landowners affected by its road construction activity. The Commission however indicated that this information was not available for several of the road projects, some of which had been carried out as far back as 1996.

4.9 In order to rectify this situation, the RDC recently sent correspondence to the land surveyors associated with the road projects. The surveyors were requested to supply information on land utilized in the road construction process. At least seven surveyors rendered service to the Commission but at 31st March 2005 only two surveyors had responded.

4.10 Available evidence indicates that land from numerous persons was utilized for road construction. However, since the Commission is not aware of the extent of its liability to landowners it is not in a position to adequately make provision for settling any debt that may be outstanding.

4.11 Commission's Response

- (i) *Previously the Commission as far as possible sought to identify landowners and ask permission for the use of parcels of their land for road construction. They duly signed a form granting that permission. After construction the lots are resurveyed and new plots issued at the expense of the Commission. It is also generally understood and those persons who gave up land in the process would be compensated. This has been done in a few cases.*

- (ii) *However at a recent meeting held with the Ministry of Housing and Lands, the Land Tax Department and other Government Departments, it was made clear that the only agency with the authority to do land acquisitions, regardless of the nature is the Ministry of Housing and Lands. Hence any stated policy would have to be the general policy of the Government.*
- (iii) *To date there has been no formal acquisition. At the meeting alluded to above the Commission has agreed to hand all acquisition matters as well as compensation for the lands acquired, over to the Ministry of Housing and Lands. (M.H.L.)*
- (iv) *In order to facilitate the process the Rural Development Commission will submit its future road program to the Ministry of Houses and Lands in advance of construction, so that acquisition matters can be dealt with in a timely matter.*

Recommendations

4.12

Recommendations are as follows:-

- (i) The Commission needs to seek legal advice from the Ministry of Housing and Lands on the procedures, which it must undertake in obtaining private lands for road construction.

- (ii) The RDC should also make every effort to maintain up-to-date records relating to affected landowners and the area of land that has been utilized from each person.

- (iii) Land should only be utilised by the RDC when the necessary legal arrangement in compliance with the Laws of Barbados are in place.

CHAPTER 5

Livestock Development Fund

The Livestock Development Fund was set up by the Commission to achieve one of its core objectives of providing assistance to small farmers. A review of the operations of this Fund was conducted.

5.2. Approximately \$1.15 million have been disbursed at 31st March 2005 financing 130 loans. Distribution during the six financial years reviewed was as follows:-

| Year | No. of Loans | Amount \$ |
|--------------|---------------------|----------------------|
| 1999 - 2000 | 16 | 96,500.00 |
| 2000 - 2001 | 10 | 84,420.09 |
| 2001 - 2002 | 31 | 328,535.60 |
| 2002 - 2003 | 15 | 183,530.95 |
| 2003 - 2004 | 28 | 258,877.63 |
| 2004 - 2005 | 30 | 198,105.95 |
| Total | 130 | 1,149,970.22 |

Summary of Findings

5.3. A summary of the findings is as follows -

- The relevant data relating to jobs created through enterprises funded under the Livestock Development Fund was not being collected. The Commission could therefore provide no indication of how successful they had been in achieving this stated

objective. In addition, no determination of the extent to which RDC funded businesses had an impact on imports was undertaken.

- As at 31st March 2005, 21 loans had been referred to attorneys in order to effect collection of arrears. Another 45 loans were in arrears.
- As at 31st March 2005 total arrears, including interest charges, amounted to \$196,423.14. This represented an increase of more than 50% over the amount of the previous year.

Security

5.4. The RDC currently accepts bills of sale on household appliances, promissory notes, guarantors and assignment of sales proceeds as security for loans. Household appliances are considered to be an inadequate form of security as ownership is not readily identifiable and the items can easily be disposed of without the Commission's knowledge or approval.

Delinquent Loans Recovery

5.5. The Commission appears not to be vigilant in managing its receivables in that action taken to recover on delinquent accounts is not effected until the loans are seriously in arrears. The method utilized is to refer the delinquent accounts to attorneys. In order to maximize recovery however, it is suggested that other options, including the use of debt collectors, should be exercised.

5.6. Twenty-one accounts valued in excess of \$152,000 were referred to the Commission's attorneys for action to be taken. The resulting effect was that eight persons commenced regular payments, one person settled his account in full and twelve failed to respond in any way.

5.7. In a number of cases, while the loan proposal specified repayment by one or the other of these methods, the arrangements were never put in place and invariably the accounts lapsed into arrears. Other cases involving delinquent accounts were observed where these methods were not utilized even though the loan beneficiaries held salaried employment.

5.8 *Commission's Response*

The Commission is currently applying the same corrective measures to address problems experienced in the administration of this fund as with the Rural Enterprise Fund.

Recommendations

5.9 Recommendations are as follows -

- (i) Management of arrears should be addressed as a matter of urgency. This can be assisted by putting systems in place to maintain contact with clients at the early stages of default. It should be recognized that the longer the period before action is taken the more likely the outstanding amount becomes irrecoverable.

- (ii) The Livestock Development Fund can play an important role in ensuring that the Commission can fulfill its mandate as it relates to small farmers. The Commission should therefore do everything in its power to ensure that the Fund remains solvent and so maintain its ability to continue making loans to deserving farmers.
- (iii) The services of a debt collection agency should be utilized to assist in the debt recovery process.

CHAPTER 6

Poverty Eradication Program

The functions of the Commission include providing housing and ancillary services, including the installation of sanitary facilities for residents living in rural areas. This activity is implemented through a Poverty Eradication Program.

6.2. There is a Poverty Eradication Committee (PEC), chaired by the Director of Finance and Economic Affairs, and with the assistance of the Welfare Department, examines and identifies cases that merit Government's assistance. Cases identified are referred to the Commission where the estimated costs for the individual projects are determined and re-submitted to the Committee for its approval.

6.3. A list of the projects approved by the Committee is submitted to the Ministry of Social Transformation and funds are disbursed out of the appropriate expenditure vote controlled by that Ministry to the RDC. At 31st March 2005 the PEC had approved \$5.47 million to carry out one hundred and forty-two (142) projects.

6.4. The services offered under the program include the construction of new houses, refurbishment of existing houses, the provision of bathroom facilities, the sinking of wells, and the supply of electricity and water in appropriate cases. At 31st March 2005, fifty-three (53) homes were constructed and twenty-two (22) repaired at a cost of over \$2 million.

6.5. According to the policy of the RDC three contractors are selected and asked to submit quotations by a specific date. The quotations submitted are referred to the Commission's Tenders and Projects Committee and a recommendation for the award of a contract is made to the Board for the final decision.

6.6. The successful contractor is notified in writing of the decision, the contract for the project is signed, and the job is carried out under the supervision of one of the Commission's Technical Officers. It is not unusual for the contractor to receive a mobilization fee of \$5,000 prior to commencement of the job. Subsequent payments are made on the basis of work completed as certified by a Technical Officer.

6.7. A number of files relating to house construction were randomly selected for audit perusal. The files requested relating to projects undertaken between 1998 and 2000 could not be located. The files examined were in respect of the period February 2001 to 31st March 2005.

Findings

Projects Outstanding

6.8. It was observed that there were significantly long delays between the disbursement of funds to the RDC and the commencement of projects. With respect to projects approved at meetings of the PEC held on 17th January and 21st February 2002, funds were advanced to the Commission in March 2002 but as at the end of March 2005, these projects had not started.

6.9. The records show that overall there were sixty-seven (67) individual projects with a value of \$2.6 million, which had not started at 31st March 2005.

Extenuating Circumstances

6.10 A number of factors inhibited the construction of some houses. The Poverty Eradication Committee was not made aware of the developments. These mainly relate to the absence of land, land disputes and proximity to special zone areas.

6.11 The Commission needs to examine the factors that have resulted in a significant number of persons not being granted assistance even though funds were provided. There were a number of instances where the Commission could not have carried out the house construction or repair because of the unavailability of land. There were however many instances in which the projects were not completed because of the tardiness of the Commission.

6.12 ***Commission's Response***

It was noted that there were seventy-one poverty cases referred to the Commission, which were outstanding at March 31, 2005. This has been reviewed and it has been found that some of these cases have been addressed. The majority of projects, for which there has been no action, were approved in 2002. This was a transition period at the Commission and the oversight could have been occasioned by the handing-over process.

- (i) All of the outstanding cases which can be addressed will be pursued and executed as a matter of urgency.*

- (ii) Some delays are in the main due to problems beyond the control of either the R.D.C. or the P.E.C. In many cases landowners have refused to grant permission to beneficiaries to construct units or sink wells. In addition some beneficiaries, who do not have access to houses, do not disclose this fact to the authorities prior to approval for assistance.*

The Commission acknowledges that some projects could not be carried out because of extenuating circumstances. However the monies provided for the specific purposes are being held and have not been used for any other purpose.

Absence of Competitive Bidding

6.13 It was observed that on a number of occasions, no tenders were invited but the Chairman of the Tenders and Projects Committee would identify the specific contractors to be awarded particular contracts. On some occasions, the contractors were awarded work before quotations from the competing contractors were received. Our review pointed out at least eleven such examples.

6.14 In the absence of competitive bidding the Commission cannot be in any position to assess whether the price it has paid in these instances is the most competitive. The Commission should ensure that potential bidders have fair access through competitive bidding, thus ensuring that it is in a position to achieve maximum value for money spent.

6.15 Commission's Response

- (i) *The normal procedure for the award of housing contracts is to invite three quotations from which, one is chosen by the tenders Committee. However in some cases this practice has not been followed, especially in cases of emergency. The provision of housing to two of the persons were considered as emergencies. There is agreement that all the other cases cited did not have competitive bidding.*

- (ii) *The Commission took note at an extraordinary meeting on December 22, 2004 that proper procedure was not being followed in some cases as regard the award of the contract and took steps to ensure that the situation did not recur. All of these contracts awarded, occurred before that date.*

Insurance

6.16 The Commission has been constructing houses since 1998. The houses remained uninsured until September 2004 when coverage was taken out on a number of them. As at 31st March 2005 twenty-nine (29) houses with a total value of approximately \$1.3 million had still not been insured.

6.17 Commission's Response

In respect of house Insurance the Commission has since moved to have all of them insured. The records show that five (5), of the number mentioned not insured and belonging to the Rural Development Commission, were without coverage on March 31, 2006. However insurance has been applied for, with respect to those units.

Life Agreements

6.18 In situations where houses are built by the RDC beneficiaries are requested to sign agreements. There were a number of instances in which no Life Agreements were signed. It was not readily evident why some houses were allocated without Agreements being issued since the signing of an agreement is an indication that the tenant recognizes the Commission as the owner of the house. The Commission needs to ensure that the relevant

agreements are in place since the absence of these certificates could lead to ownership disputes.

6.19 Commission's Response

The Audit noted that there were in excess of 30 houses constructed as a result of referrals from the Poverty Eradication Committee for which no life certificates were issued. Please note that of the cases cited only six (6) of them did not have life certificates issued. These are now being put in place.

Prior to September 30, 1999 there was no policy in place with respect to life licences and the RDC did not enter into any contractual arrangements with beneficiaries or maintained any interest in the units.

Over Payments

6.20 A number of cases were observed where contractors were paid sums in addition to the contracted amounts. The payments were made on the basis of claims submitted by the contractors. The records however show that, in some cases, the invoices submitted were for jobs that were specifically included in the original contracts such as demolition and removal of existing houses. The Authority should investigate these cases with a view to recovering any amounts that may have been overpaid.

Other Issues

6.21 As indicated before, the Commission is responsible for costing the jobs identified by the PEC and the funds approved are based on the costings provided. It was observed however that contracted amounts often varied significantly from the original estimates. In addition, instances were observed where decisions

were made to construct new houses when the original recommendations from the PEC were for repairs to the existing structures.

6.22 It was also observed that neither the Ministry of Social Transformation nor the PEC was informed when variations took place and no adjustments were made with respect to the funds originally budgeted for the various projects. This type of arrangement could have a negative impact on the Commission's budgeting and expenditure plans and should be reviewed.

6.23 In order to ensure value for money, the RDC should, as a routine procedure, approve interim payments to contractors on the basis of being satisfied that work previously done justifies the amounts being claimed. In several cases, funds were disbursed without indication that site visits and inspections were made. Such practices are not in the best interest of the Commission.

6.24 *Commission's Response*

- (i) *Variation occurs because in some instances, the period between which the estimates are made and the projects commence is fairly substantial. This often contributes to houses identified for repairs having to be replaced.*

Recommendations

6.25 The following recommendations are suggested:-

- (i) As a measure of protection, the Commission should consider including a retention fee in the contract agreements.

- (ii) The RDC management should ensure that a detailed scope of works is included in all contracts and funds disbursed should be in relation to the work completed.
- (iii) Proper procedures should be put in place to deal with variations and cost over-runs.
- (iv) Procedures should be in place to ensure that all houses are insured and that the values are realistic.
- (v) Consideration should be given to submitting reports to the PEC thereby keeping it informed of the status of projects it has authorized.

General Audit Issues

Accounting Records

6.26 It was observed that the transactions relating to clients' accounts records are maintained using a spreadsheet computer program. There is a control weakness in this current method of operation as there is easy access to records and unauthorized changes to data can be made. The Commission should explore alternative methods aimed at strengthening controls and ensuring the integrity of the data being maintained.

Audit of Financial Statements

6.27 Section 14 of the Rural Development Commission Act requires the Commission to prepare and submit for audit statements of accounts for each financial year within 3 months from the end of the financial year. The last audited Statements of Accounts prepared by the Rural Development Commission were for

the year ending 31st March 2000. The Commission has employed additional personnel to assist with the preparation of the Accounts however, at 31st March 2006 the Statements for the past five years were still in arrears.

6.28 The Commission needs to reassess the staff complement of the accounts section and ensure that it has personnel capable of producing financial reports on a timely basis. Delays of several years in making financial statements available create certain risks in which fraud can go undetected. Serious efforts should be made to bring the accounts up to date.

Criteria For Assistance

6.29 The Audit Office has been seeking information in respect of the specific criteria used to determine a person's eligibility for assistance from the RDC. On a number of occasions there was no evidence that Social Surveys were conducted as a prerequisite for assistance.

6.30 The Commission has indicated that it conducts social investigations before persons are granted assistance. The following factors were said to be considered in determining assistance.

- Family Incomes
- Size of the Household
- Age and Physical condition
- Mental challenges.

6.31 A review of sixty-six (66) files of the Commission revealed that there were twenty-nine (29) instances in which there were no social reports on file. It should be noted that the criteria provided by the RDC for persons requesting assistance is of a general nature. The Commission should establish more specific criteria for those requesting assistance. In addition, when persons are granted assistance because of other considerations then this should be stated on the Social Report.

6.32 Commission's Response

The Commission acknowledges the tardiness in the audit of its financial statements. Every effort is being made to have all outstanding statements completed by mid 2006.

CHAPTER 7

Overall Conclusions

The RDC has been given a mandate to improve housing conditions and social amenities of the rural poor. In addition it assists rural farmers and those involved in cottage industries. Over the past ten years approximately \$50 million has been used by the Commission in this regard.

7.2 The Enterprise Fund was established to accomplish specific goals and these include reducing unemployment in the rural areas of Barbados through the development of a sustainable micro business sector, and reducing the level of imports. The activities of the Fund would have invariably assisted in this process. However, in the absence of data on performance the RDC cannot be certain that its efforts are having the desired impact.

7.3 With respect to loan security and the management of arrears the RDC must examine the methods it is employing since these have proven to be ineffective. Accepting household appliances as security is high risk and has been demonstrated to be not a very effective means of obtaining recovery when there is a default on a loan. Given the nature of businesses granted loans by the Commission it is expected that there will be some enterprises that will not succeed.

7.4 There is no excuse however for not actively pursuing those enterprises that have the ability to service their loans. The Commission has indicated that it will be conducting an impact assessment on the Enterprise Fund and this should provide further insights into its effectiveness and its sustainability as a revolving fund.

7.5 A challenge the Commission faces is the inadequacies of its information systems. Our requests for information often resulted in lengthy searches having to be conducted. It is also necessary for the Commission to have basic

information such as life agreements, social reports and project requests from the PEC available for decision-making and review.

7.6 Currently the RDC has approximately 500 houses to maintain and this is a challenging exercise. The RDC needs to improve its information base in respect of the condition of these houses, their occupants and location in order to better manage these properties. It is also necessary to have an adequate repair program in place to address some of the outstanding repair issues.

7.7 Houses built by the Commission range in price from \$30,000 to \$60,000 and it is therefore necessary for life agreements to be in place. This would minimize ownership disputes and in the event of vacancies arising the properties can be transferred to other eligible persons.

7.8 The RDC has constructed numerous roads that have benefited many persons in rural Barbados. It has recognized that it has made errors in utilizing lands and it is seeking to address the issue.

7.9 The Commission has acknowledged that the complement and composition has often not kept pace with functions. The staff complement of the Commission is being reviewed and this is a necessary step. The Commission also needs to ensure that the creation of posts is in line with the provision of the Rural Development Commission Act and the decisions of the Cabinet.

7.10 Overall the Commission has made a significant contribution to Rural Barbados particularly in the House Repair and Replacement Programs and in the provision of roads. This contribution can however be enhanced if some of the deficiencies outlined in this Report are addressed.