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AUDIT OF THE
PL 480 TITLE I PROGRAM TO LIBERIA

Audit Report No. 7-669-85-8

May 24, 1985

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON, D.C. 20523

INTERNATIONAL ADDRESS
RIG/DAKAR
C/o AMERICAN EMBASSY
B.P. 49 DAKAR, SENEGAL
WEST AFRICA

May 24, 1965

Mr. John Pielemeier
Acting Director
USAID/Liberia
Monrovia, Liberia

Dear Mr. Pielemeier:

This report discusses results of our audit of the PL480 Title I program to Liberia from 1980-1984. The objectives were to determine Government of Liberia compliance with the PL480 agreement, including the use of sales proceeds to support development projects and self-help measures to improve the lives of the rural poor.

The Government of Liberia substantially complied with the agreement in the early program years. Since 1982, however, serious liquidity and economic problems caused shortfalls in the PL480 account amounting to about $16.5 million at March 1985. The lack of funds has caused problems in the development projects which were dependent on PL480 proceeds. We found the Government of Liberia agent responsible for PL480 Title I sales (1) transferred about $1.1 million in rice to government organizations without requiring payment, and (2) had accounts receivable of $14.4 million due from credit sales, of which about $7.4 million was considered uncollectable. The Government of Liberia also failed to submit required reports on self-help measures taken pursuant to the PL480 Title I agreements.

We are recommending that USAID/Liberia not award additional PL480 Title I assistance until the Government of Liberia (1) reestablishes the special account, and (2) deposits the outstanding sales proceeds. Also, USAID should exercise greater control over future PL480 programs. Therefore, we are making recommendations on releases from the special account, government credit and sales policies, and inventory control procedures. We noted that the Mission is taking the appropriate action to implement the recommendations.

Please advise us within 30 days of the action taken or planned to close the recommendations. Thank you for the assistance provided to my staff during the audit.

Sincerely,

John P. Competello
Regional Inspector General/Audit
West Africa

EXECUTIVE SUMMARY

The Office of the Inspector General for Audit/West Africa audited the Public Law 480 Title I program to the Government of Liberia to evaluate the Government of Liberia's compliance with AID regulations and the PL 480 Sales Agreements. Specifically, we focused on whether (1) projects financed from PL 480 Title I counterpart funds contributed to the country's development program, (2) counterpart funds were made available as required to the development projects, (3) the inventory of PL 480 Title I commodities was accurate, and (4) the Government of Liberia complied with self-help measures contained in the agreements. Our audit was conducted in Monrovia, Liberia, during March 1985 and included program activities for the period August 1980 through March 1985.

The PL 480 program began August 1980 in response to Liberia's need for budgetary and balance of payment support, and to the country's 1979 rice riots. Over the past 5 years, the program authorized the sale of U.S. rice valued at $65 million on concessional terms. The program's objectives were to provide sufficient quantities of rice to meet Liberia's food deficits, while at the same time generating money from rice sales to finance operating costs of specified development projects. These development projects, together with agreed upon self-help measures, were directed at improving the lives of the poor in rural areas. The Government of Liberia assigned responsibility for marketing and importing the PL 480 rice to the Liberia Produce Marketing Corporation.

The Government of Liberia substantially complied with the agreements in the early program years. Since 1982, however, serious cash liquidity and economic problems caused shortfalls in the PL 480 account amounting to about $16.5 million at March 1985. The Liberia Produce Marketing Corporation had not exercised good management practices over rice sales and inventory control to ensure sales proceeds were made available to the development projects in a timely manner. Also, for the past 2 years, the government had not complied with some of the major provisions of the agreements which limited USAID/Liberia's monitoring of the program. These deficiencies should be corrected prior to entering into additional PL 480 Title I agreements. Major issues cited in Part II of this report are:

-- Of the $65 million expected from rice sales, the Government of Liberia as of March 16, 1985, had not deposited sales proceeds of $16.5 million into the special account for transfer to development projects. The required special account was closed by the government in

May 1984, and sales proceeds were then deposited into other government accounts. As a result, the implementation of some projects was curtailed.

-- Government counterpart funds were limited because the Liberia Produce Marketing Corporation sold rice on credit and transferred rice to other government organizations without payment. Their weak sale and credit policies resulted in accounts receivable amounting to $14.4 million, including $7.4 million which is considered uncollectable.

-- Because of inadequate stock control and lack of physical inventories, we and others questioned the accuracy and reliability of the Liberia Produce Marketing Corporation's rice inventory as of March 16, 1985, which was valued at $3.6 million. Thus, the required government reports on inventory were of limited use to USAID/Liberia in monitoring the amount of counterpart funds generated from rice sales.

-- For 1984, the Government of Liberia had not submitted some of the more significant reports required under the PL 480 Memoranda of Understanding. These reports included information on the management of counterpart funds and reports on the self-help measures. Therefore, USAID/Liberia had little assurance that sales proceeds were used for intended purposes or that self-help measures were taken as required.

USAID/Liberia tried to get the Government of Liberia to comply with the terms of the PL 480 Sales Agreements. They developed a plan of action requiring that the Government of Liberia meet certain conditions before any future PL 480 programs were discussed or agreements signed. These requirements included the reestablishment of the special account and deposit of a significant portion of the outstanding sales proceeds.

To better ensure compliance with the agreements, we recommend that USAID/Liberia not award additional PL 480 Title I assistance until the Government of Liberia (1) reestablishes the special account, and (2) deposits the outstanding sales proceeds. We also recommend that USAID/Liberia obtain from the Government of Liberia required reports on counterpart fund generation and self-help measures.

Based on the past difficulties with the government's management of the program, USAID should exercise greater control over future PL 480 programs. Therefore, we are making recommendations regarding releases from the special account, government credit and sales policies, and inventory control procedures.

Mission management agreed with our findings and concurred in all recommendations except for a portion of Recommendation No. 4. The disagreement on this recommendation which deals with an independent certified count of the rice inventory will be resolved during the course of the IG audit follow-up and closure processes. The Mission is taking the appropriate actions to implement the other recommendations. We have summarized Mission comments on pages 6, 7, 11 and 13 of this report, and also included them as Appendix 1.

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PL 480 TITLE I PROGRAM TO LIBERIA

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PART I - INTRODUCTION

A. Background

The PL 480 Title I program authorized the sale of U.S. agricultural commodities on concessional terms to friendly developing nations. For Liberia, this included an extended repayment period of 20 to 25 years and an interest rate of 2 percent in the initial period of 5 years, and 3 percent thereafter.

The current series of PL 480 Title I agreements began in August 1980, in response to Liberia's need for budgetary and balance-of-payment support, and the country's 1979 rice riots. The first agreement entered into on August 13, 1980, provided $5 million to procure 11,400 metric tons of U.S. rice. This agreement was followed by 4 annual $15 million programs (1981-1984) which brought the level of assistance to a total of 171,800 metric tons of U.S. rice valued at $65 million.

The Government of Liberia (GOL) assigned the responsibility for importing and marketing PL 480 Title I rice to the Liberia Produce Marketing Corporation (LPMC). This agency was also responsible for depositing sales proceeds into a special account and submitting periodic reports on Title I sales, inventories, and other data to the GOL and USAID.

An essential element in the PL 480 Title I agreements pertains to the use of local currencies generated from the sale of the imported commodities. These monies, which are owned by the cooperating government, were to be released from the special account and used to finance operating costs of mutually agreed upon development projects. It was agreed that the GOL releases to these projects would at least equal the acquisition value of the imported commodities of $65 million over the 5 years.

In addition, the agreements called for the GOL to undertake self-help measures aimed at improving the lives of the poorest Liberians, and their capacity to participate in the country's development process. For example, the 1984 agreement required LPMC to expand its capacity to purchase, process, and market domestically produced rice to meet the increased rice production of small farmers.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/West Africa audited the PL 480 Title I program in Monrovia, Liberia during March 1985. Covering PL 480 program activities since August 1980, the audit followed a joint audit/investigation conducted by the same office in mid-February 1985 in response to USAID/Liberia's concern over alleged diversion of PL 480 Title I rice and irregular use of sales proceeds. We reviewed GOL compliance with AID regulations and PL 480 Title I Sales Agreements emphasizing the 1983 and 1981 Agreements. This was the first audit of the PL 480 Title I program to Liberia.

Our specific audit objectives were to determine whether:

-- Projects financed from counterpart funds contributed to the country's development programs;

-- Counterpart funds were made available to development projects on a timely basis and in the amounts required;

-- The inventory of Pl 480 Title I rice was accurate and reflected proper stock movement procedures; and

-- Self-help measures aimed at improving the lives of the poor Liberians were addressed as required.

To accomplish these objectives, we reviewed pertinent files and held discussions with officials of the U.S. Embassy and USAID Mission in Monrovia, Liberia, as well as GOL Ministries and Agencies implementing the program. We selectively tested shipping and arrival reports and performed other reviews and tests we considered necessary. The audit was made in accordance with generally accepted government audit standards.

We discussed our findings and conclusions at an exit conference with USAID/Liberia officials and submitted a draft audit report for their review and comment. Mission comments, presented in Appendix 1, were considered in preparing this final report.

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PART II - RESULTS OF AUDIT

A. Findings and Recommendations

1. PL 480 Title I Sales Proceeds Have Not Been Transferred to Development Projects As Required

The 1980-1984 PL 480 Title I Sales Agreements with the Government of Liberia (GOL) required that $65 million generated from the sale of rice be deposited into a special account and later transferred as counterpart funds to approved development projects. During the first 2 years (1980-1981) of the program, the GOL contributed more than required to the projects. However, with increasingly serious economic problems including a shortage of cash, the GOL did not meet its commitments over the last 3 years (1982-1984). Under the provisions of a banking arrangement, the GOL closed the PL 480 special account in May 1984, resulting in PL 480 sales proceeds being deposited into other GOL accounts. These shortages of funds adversely affected development projects.

Recommendation No. 1

We recommend that USAID/Liberia not enter into any further PL 480 Title I agreements with the Government of Liberia until all of the terms and conditions of the present agreement are met. This includes:

a. reestablishing the special account; and
b. depositing the delinquent sales proceeds to this account.

Recommendation No. 2

We recommend that USAID/Liberia include in any future PL 480 agreements with the Government of Liberia:

a. a plan for meeting the financial needs of development projects;
b. a provision for the maintenance of a special account; and
c. a requirement for USAID approval of releases from the special account.

Discussion

The PL 480 Title I Sales Agreements (1980-1984) stipulated that the GOL deposit $65 million generated from rice sales to a special account. These funds were intended to be used to support self-help measures and specific development projects. The GOL did not provide the required funds to the specified projects (see Exhibit 1 for a list of the development projects) as shown in the following chart:

Status of PL 480 Title I
Transfers to Development Projects

		Dollars Millions
Required per the PL 480 Agreements		$65.0
Less releases to development projects:		
Transfers based on LPMC sales proceeds	$27.9	
Transfers by GOL from general revenue	17.0	44.9
Balance		$20.1
Less inventory of PL 480 rice at LPMC at March 16, 1985		3.6
Net deficit		$16.5 1/

In the early years of the program (1980-1981), the GOL transferred more funds to the projects than required. Specifically, they provided $24 million to the projects instead of the required $20 million.

However, from 1982 to 1984, the GOL did not transfer all the required counterpart funds to development projects because of the government's economic problems, including a shortage of cash. These cash flow problems were perpetuated by the inadequate cash management practices of the Liberia Produce Marketing Corporation (LPMC). For example, LPMC officials told us they spent about $8.7 million in PL 480 sales proceeds to purchase local rice, a function which the GOL had charged LPMC to carry out. LPMC did not replace the sales proceeds because the GOL was in debt to them for subsidies due on the purchasing and processing of this rice and investments in the local rice program. In addition as discussed in Finding 2, commodities valued at $14.4 million have not yet generated counterpart funds. This occurred because LPMC either made credit sales which are still outstanding or transferred commodities without payment to GOL organizations, GOL officials, and parastatal agencies.

As a measure towards achieving a balanced budget, the GOL reached an agreement with the Liberian Bankers Association to maintain only 3 bank accounts. Thus, the PL 480 Title I

1/ In March 1985, LPMC reported having sale proceeds of approximately $2.6 million which if applied to projects would reduce the deficit to $13.4 million.

special account was closed in May 1984. Thereafter sales proceeds were deposited into other GOL accounts. With this closure, USAID's monitoring of PL 480 sales generations and transfers to development projects was impaired.

Due to reduced counterpart deposits by LPMC and the inability of the GOL to fund the special account, the development projects suffered. Project activities have been reduced and their future operation is uncertain. For example, the Central Agriculture Research Institute Project, which receives all of its counterpart funding from PL 480 sales, has not yet received approximately $2.5 million due from the GOL FY 84-85 budget which began in July 1984. As a result, USAID project funds had to be used to pay part of the utility costs for 6-8 months; the Research Institute was unable to initiate short and long-term training programs under the AID grant; and gasoline had to be rationed. USAID officials told us the project would have stopped without additional funding. Continuation of the current phase and start of the planned phase II effort is in serious doubt.

The Liberian Rural Communications Network Project experienced similar problems. USAID provided about $100,000 to cover operating expenses up to June 1985 which should have been funded from GOL counterpart funds. Without the counterpart funding, project operations may be curtailed.

Since November 1984, USAID/Liberia and the U.S. Embassy have tried to get the GOL and LPMC to comply with the agreements. Although these efforts were not always successful, the GOL has been made aware of U.S. concerns and possible repercussions of not meeting agreement terms.

In its latest effort, USAID/Liberia developed a specific plan of action as to what it will require from the GOL in negotiating a 1985 PL 480 Title I program. At the completion of our audit in March 1985, the plan had neither been approved by AID/Washington nor transmitted formally to the GOL. However, USAID/Liberia informed the GOL of certain provisions of the plan. For example, a March 1985 letter stated that the U.S. would not begin discussions on a 1985 PL 480 agreement until the special account was reestablished and used as intended. Also, a new agreement would not be signed until the GOL deposited a significant portion of the outstanding sales proceeds into the special account and agreed to deposit the remaining portion within 18 months.

In its discussions with the GOL on the 1984 PL 480 Title I program, USAID attempted to negotiate a provision requiring USAID to approve all releases from the special account. The GOL refused this provision, invoking its rights over the funds as a sovereign country. Because of the continuing problems with the special account, we believe USAID/Liberia should again attempt to negotiate a similar provision in any future agreements.

The GOL had not complied with the PL 480 agreements and had fallen behind in making payments to development projects. Progress was slow in making up these shortfalls. LPMC has not generated sufficient PL 480 sales receipts because of credit sales and transfers of rice to government organizations. In addition, proceeds from cash sales have not been deposited as required, and the special account was closed contrary to agreement terms. These issues need to be corrected before further PL 480 agreements are signed.

Management Comments

Mission officials concurred with Recommendation Nos. 1, 2(a) and 2(b). In regards to Recommendation No. 1, they believe that because of the extremely tight revenue situation facing the GOL and LPMC, it is unrealistic to expect that the full $16.5 million outstanding Title I proceeds could be deposited before the signing of a new agreement.

Subsequent to our audit, the GOL reported deposits amounting to $8.3 million which leaves a delinquent balance of $8.2 million. The Mission proposed that the GOL deposit $3 million of the $8.2 million prior to signing a new agreement. Thereafter, the GOL will be given a reasonable period of time after the signing of the new agreement to deposit the remaining $5.2 million into the PL 480 special account. The Mission will negotiate a schedule of payments with the GOL prior to the signing of the FY 1985 PL 480 agreement. The schedule of payments will be included as a self-help measure in the agreement with details of the deposit schedule provided in the memorandum of understanding.

The GOL informed the Mission that they closed all previous PL 480 proceeds accounts and transferred the funds to a special account. The Mission suggested the GOL amend the FY 84 memorandum of understanding to formalize the establishment and functioning of the special account. The GOL's approval of an amendment acceptable to AID will be required before a new agreement is signed.

Regarding parts (a) and (b) of Recommendation No. 2, Mission officials stated that a plan for meeting the financial needs of development projects and the details of the operation and functioning of the special account will be included in any future agreements. Specific details will be set forth in the memorandum of understanding.

The Mission does not believe Recommendation No. 2(c) is feasible if the recommendation is interpreted to require the Mission to countersign checks issued from the special account. Such attempts at this approval failed in the past. As an alternative, the Mission reached an agreement in principle with the GOL whereby the Ministry of Planning will advise the Mission in writing not less than 7 days in advance of its intention to disburse or transfer funds from the special account. The Mission will respond within 7 working days after receipt of the GOL notification. The Mission believes this procedure together with regular reports on the uses of the counterpart funds will ensure that releases from the special account will be in accordance with the PL 480 agreement.

Office of Inspector General Comments

We accept the Mission's implementation plan as meeting the intent of our recommendations. Planned corrective actions will be monitored through the IG audit follow-up and closure procedures.

2. <u>Government of Liberia Sales and Credit Policies Need Strengthening</u>

Credit sales by the Liberia Produce Marketing Corporation (LPMC) and transfers of PL 480 Title I rice to other government entities without payment, have reduced the Government of Liberia's (GOL) resources to be used for development projects. Because of weak sale and credit policies, LPMC had accumulated $14.4 million in accounts receivable, including $7.4 million considered uncollectable. As a result, counterpart funds have not been available for deposit and the GOL must make deposits to the PL 480 special account from their general revenues.

<u>Recommendation No. 3</u>

We recommend that USAID/Liberia, in the event of any future PL 480 Title I programs, ensure that the Government of Liberia establishes sound sale and credit policies over PL 480 Title I commodities.

<u>Discussion</u>

USAID/Liberia became aware of GOL liquidity problems when releases to the development projects started diminishing under the FY 1983 program. In June 1983, USAID learned of significant LPMC accounts receivable which were believed to have contributed to the GOL's inability to meet its financial commitments to those projects. During our meeting with LPMC officials in March 1985, we obtained a list of accounts receivable amounting to $14.4 million. These receivables, representing 22 percent of anticipated sales proceeds, have been idle for periods dating to 1980. Based on our analysis of this list and discussions with LPMC officials and an independent Liberian auditor, we found about $7.4 million of the $14.4 million accounts receivable were uncollectable. They are considered uncollectable because of their age and the non-existence of certain firms.

For example, the $7.4 million included $6.3 million in credits without a guaranty or mortgage instrument. Of this amount, commodities valued at about $5.5 million were issued to traders and other individuals reported as "inactive customers". The whereabouts of these credit recipients was unknown. They are believed to be out of business and presumably left their original addresses. According to an independent Liberian auditor currently reviewing LPMC activities, collections from debtors (active and inactive) without guaranties is highly unlikely.

The PL 480 Title I Memoranda of Understanding between USAID and the GOL provided for rice sales to wholesale dealers.

However, instead of selling the rice to generate counterpart funds, the GOL authorized the transfer of quantities worth about $1.1 million without payment. The recipients were GOL officials, ministries, and other public corporations. This amount was included in LPMC's reported accounts receivable of $14.4 million as of January 31, 1985. As such these $1.1 million transfers represent the remaining uncollectables ($7.4 million less $6.3 million).

The remaining $7 million LPMC accounts receivable considered collectable include about $2.9 million in collectable credit extended to wholesalers and about $4.1 million covered by guaranties.

Officials of the GOL Ministry of Planning and Economic Affairs stated that LPMC should be held responsible for all accounts receivable. However, LPMC officials maintain that the GOL owed them over $5.8 million because LPMC paid rice subsidies which LPMC claims are the GOL's responsibility. In February and March 1985, the GOL attempted to collect the delinquent accounts. In response to our draft report, USAID/Liberia stated that the GOL informed them that as of April 5, 1985 they had collected over $3.1 million for the PL 480 account.

3. Inventory Control Over PL 480 Commodities Needs to be Improved

The PL 480 Title 1 Sales Agreements required the Liberia Produce Marketing Corporation (LPMC) to provide periodic reports on commodity sales and status of the ending inventory. Because of inadequate stock control and lack of physical inventories, we questioned the accuracy and reliability of these inventory reports. Thus, the reports were of limited use to USAID/Liberia in monitoring the amount of counterpart funds that should have been generated from rice sales.

Recommendation No. 4

We recommend that USAID/Liberia (a) obtain an independent certified count of the rice inventory from the Government of Liberia and (b) ensure that the Government of Liberia establishes inventory controls and procedures over PL 480 commodities to improve the reliability of inventory reporting.

Discussion

The PL 480 agreements required the submission of quarterly reports by the GOL on sales and ending inventories of PL 480 rice. These reports were used by USAID to monitor PL 480 activities and provided information on the amounts expected from unsold PL 480 rice. The accuracy of reported inventories was important in determining the value of these future sales proceeds.

LPMC reported to USAID/Liberia that the ending rice inventory on March 16, 1985 was approximately 162,000 bags valued at about $3.6 million. Based on our review of stocks and available records at one of the LPMC warehouses we questioned the reliability and accuracy of these figures.

We attempted to verify the inventory balance at the warehouse with the largest inventory -- about 120,000 bags of rice. We found that the rice was not stacked uniformly in equal quantities, and the number of bags within the stacks were estimated amounts and had no relation to what was actually in the stack. For example, warehouse records showed that 1,870 bags were received and placed in one stack. However, these same records showed that 3,225 bags had been issued from that stack. We were told by a Liberian auditor that since a physical inventory had not been taken there was no way of verifying the reported ending inventory figures. LPMC officials told us that only when stocks reached very low levels were differences noted.

According to USAID officials, security at the LPMC warehouses was inadequate especially during receiving and discharging operations. They believed quantities of PL 480 rice had been removed without being recorded in LPMC records. USAID officials and the Liberian auditor told us that LPMC's stock accounting records and internal control over that stock were inadequate. Our review showed that substantiation of any possible diversions could not be made until the results of a physical inventory are compared to the stock records.

Because of the unreliable inventory reports, USAID/Liberia did not know whether the reported balance of rice inventory stocks valued at $3.6 million actually represented what was available for sale. Any shortfalls resulting from these inaccurate inventories will have to be paid from GOL general revenues.

Management Comments

Mission officials concurred in part (b) of this recommendation. However in regards to the need for a certified count they stated that at the current sales rate all LPMC rice stocks would be sold by the release date of this audit report. As a result, they did not see the need for a certified inventory and requested the deletion of part (a) of this recommendation.

Office of the Inspector General Comments

If all the rice stocks are sold when the new PL 480 agreement is signed, then we agree that a certified count is not necessary. However if this does not occur, we believe the GOL should provide a certified count. The intent of the recommendation is to ensure that the Mission knows the value of the rice inventory at the time they sign a new agreement with the GOL. A determination as to whether a certified count is necessary will be made during the course of the IG audit follow-up and closure procedures. USAID/Liberia is requested to provide any additional information that has a bearing on this determination.

4. GOL Compliance with Reporting Requirements Needs to be Emphasized

The PL 480 Title I Sales Agreements required the Government of Liberia (GOL) ministries and agencies responsible for implementing the PL 480 program to submit periodic reports to USAID/Liberia. These reports were intended to serve as a GOL and USAID tool for monitoring the program. A GOL coordinating committee was to be formed to ensure timely submission of the required reports. We found this committee was not functioning and some significant 1984 reports were not submitted. Therefore, USAID/Liberia had little assurance that funds generated from PL 480 sales were used for intended purposes or that self-help measures had been taken as required.

Recommendation No. 5

We recommend that USAID/Liberia obtain from the Government of Liberia all required reports for 1984 including those on (a) counterpart fund generations and expenditures, and (b) the status of progress under the self-help measures as set forth in the PL 480 Sales Agreements and yearly Memoranda of Understanding.

Discussion

According to the yearly Memoranda of Understanding, the GOL ministries and agencies monitoring the PL 480 Title I program agreed to submit various reports to USAID/Liberia. These included quarterly activity reports, quarterly reports on the management of counterpart funds, and annual reports on self-help measures. A GOL coordinating committee was established to ensure timely submission of the required reports.

In reviewing compliance with the reporting requirements, we found the coordinating committee mechanism had not operated effectively. In addition, while GOL reporting was generally adequate in 1983, some significant reports required under the FY 1984 program were not submitted (see Exhibit 2 for a list of these reports). For example, the Memorandum of Understanding dated December 12, 1983 required quarterly statements on the transfer of sales proceeds to the special account and releases of counterpart funds to the approved projects. Because these statements had not been submitted for the FY 1984 program, it was very difficult for USAID/Liberia to know whether counterpart funds generated were used effectively and for intended purposes.

We also found that despite repeated requests to government officials, USAID/Liberia has not received various reports on self-help measures specified under the 1984 program. In these reports, the GOL was required to provide compliance statements and information on the progress made in implementing those measures. Without these reports, USAID/Liberia had no assurance that steps had been taken to improve the production, storage, and distribution of agricultural commodities as stated in the agreements. In addition, Mission staff had little means of verifying whether the program had contributed to development progress in poor rural areas of Liberia. We believe that unless timely reports are submitted as required, USAID/Liberia's ability to monitor the PL 480 Title I program is extremely limited.

Management Comments

Mission officials concurred in the recommendation. They have advised the GOL that all outstanding reports including self-help and counterpart generation and expenditure reports must be submitted before negotiations for a PL 480 Title I agreement can begin.

Office of Inspector General Comments

The Mission's implementation plan meets the intent of our recommendation and corrective actions have already started.

B. Compliance and Internal Control

Our review showed an adequate level of GOL compliance with the PL 480 Title I Sales Agreements, Memoranda of Understanding, and AID standards existed for 1980-1982.

During 1983, there was generally good compliance with the self-help measures as stated in the 1983 Sales Agreement. However, many of the self-help measures were not in compliance with the 1984 Sales Agreement as shown in Exhibit 2. In addition, as discussed in Findings 1 and 2, the Government of Liberia in 1983 and 1984 failed to deposit the rice sales proceeds into a special account and transfer those proceeds to the development projects in the agreed upon amounts as specified in the Sales Agreements and Memoranda of Understanding. We believe the self-help measures and transfer of sales proceeds to the development projects should be addressed so the PL 480 program may have a greater effect on development activities in Liberia.

The GOL did not provide the required reports during 1984 on the PL 480 program to USAID/Liberia as discussed in Finding 4. The lack of these reports reduced USAID's effectiveness in monitoring whether the PL 480 program assisted in Liberia's development process. Other than the conditions cited, nothing came to our attention that would indicate untested items were not in compliance with applicable laws and regulations.

Internal Control

Generally, USAID internal controls were found to be adequate and operating satisfactorily. However, in certain instances the GOL's internal controls were not satisfactory. For example, the GOL's poor inventory procedures for the storage of PL 480 rice did not allow management to know the status of its inventory at any given point in time (see Finding 3). Controls over the deposit of sales proceeds to the special account and transfers to development projects were inadequate (see Findings 1 and 2). Other tests of internal controls made during our audit indicated an adequate level of compliance with controls. We have indications GOL management plans to initiate appropriate action to correct the internal control deficiencies reported as a result of this audit. We made recommendations to USAID to ensure these corrective actions are fulfilled.

C. Other Pertinent Matters

1. The PL 480 Title I Program is Primarily Needed to Help Fund Development Projects

Each year USAID estimates a rice gap for Liberia as part of the Mission's PL 480 Title I justification process. The rice gap is the difference between demand, including security reserves, and supply represented by domestic production, remaining PL 480 balances, and estimated imports by private firms. The rice gap for GOL budget year 1984/1985 was calculated at 25,018 metric tons valued at approximately $8.4 million. During the past 5 years, the rice gap was filled by PL 480 programs and additional commercial imports.

For FY 1985, USAID believes private sector importers have the resources and capabilities to fill the rice gap if a PL 480 agreement is not signed. However, sales of commercially imported rice will not generate funds to support development projects as did PL 480 programs. Thus, without a FY 1985 PL 480 program, the GOL will have less counterpart funds available to support the development budget in GOL budget year 1985/1986. The GOL will have to provide general revenue funds for any shortfall. In view of the GOL's past difficulty meeting counterpart fund commitments, USAID/Liberia is reviewing the potential impact on USAID bilateral projects of not having a PL 480 program.

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PART III - EXHIBITS AND APPENDICES

Exhibit I
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Development Projects Funded by Liberia PL 480 Title I Program For the Period 1980 Through 1984

1980

1. Lofa County Rural Development
2. Bong County Rural Development
3. Agricultural Research
4. Livestock Production
5. Decentralization of Agricultural Sector
6. Agricultural Training Institute

1981

1. Nimba County Rural Dev.
2. Liberian Rubber Dev.
3. Buto & Dube Oil Palm
4. Liberian Coffee & Cocoa
5. Lofa County Rural Dev.
6. Livestock Project
7. Agricultural Research
8. Agricultural Extension
9. Agricultural Training Inst.
10. Seed Multiplication
11. Bong County Rural Dev.
12. Decentralization of Agricultural Sector

1982

1. Central Ag. Research (CARI)
2. Ag. Training (RDI)
3. Bong Rural Development
4. Lofa Rural Development
5. Nimba Rural Development
6. PFP
7. Livestock
8. Agricultural Bank
9. Liberia Rubber Development
10. Liberia Coffee & Cocoa
11. Ag. Extension (Rec.)
12. Seed Multiplication
13. Liberia Rural Comm.
14. Primary Health Care
15. Four Rural Health Centers
16. Feeder Roads: Lofa, Bong, Nimba, Sinoe, Grand Gedeh, Grand Bassa, Cape Mount, Montserrado, Maryland
17. Rural Health Trng. Center
18. Camp Mechlin
19. Bomi Woods

Development Projects Funded by Liberia PL 480 Title I Program For the Period 1980 Through 1984

1983

1. Lofa County Rural Development
2. Bong County Rural Development
3. Nimba County Rural Development
4. Nimba Rural Technology (PFP)
5. Liberia Rubber Development Unit
6. Liberia Coffee & Cocoa
7. Rice Seed Multiplication
8. Central Agricultural Research (CARI)
9. Agriculture Training (RDI)
10. Animal Multiplication
11. Saye Dube Research (Substation)
12. Agricultural Bank
13. Primary Health Care
14. Liberia Rural Communication
15. Feeder Roads: Lofa, Bong, Nimba, Sinoe, Grand Gedeh, Maryland, Grand Cape Mount, Montserrado
16. SEFO
17. Highway Maintenance
18. Camp Mechlin
19. Rural Health Training (REC)

Exhibit 1
(Page 3 of 3)

Development Projects Funded by Liberia PL 480 Title 1 Program For the Period 1980 Through 1984

1984 1/

1. Central Agriculture Research (CARI)
2. Rural Development Institute (RDI)
3. Agriculture Training (MOA)
4. Improved Efficiency of Learning (IEL)
5. Liberia Opportunity Industrialization Center (LOIC)
6. Bong County Rural Development
7. Lofa County Rural Development
8. Nimba County Rural Development
9. Agriculture Development Bank
10. Primary Health Care
11. Rice Seed Multiplication Center
12. Liberia Rural Communication
13. Agricultural Surveys (Logistic Support)
14. Agricultural Cooperative Development
15. Animal Traction
16. Land Utilization
17. Feeder Roads
18. Rubber Development
19. PL 480 Monitoring
20. Youth On-the-Job Training
21. Nimba Rural Technology (PFP)

1/ Proposed projects by USAID; actual GOL budget not finalized.

Exhibit 2

Listing of Compliance Exceptions Pertaining to the 1984 PL 480 Title I Self-Help Measures As of March 1985

1.	LPMC will expand its capacity to purchase, process, and market domestic rice.	Not known; no information received
2.	Ministry of Agriculture will provide USAID within 4 months of signing of the agreement (Dec. 15, 1983) reviews of major agricultural sector reports completed within the 2 previous years.	Reviews not submitted; 11 months late
	Within 12 months of signing the MOA will prepare a comprehensive agricultural sector strategy incorporating recommendations from the various agricultural sector reports.	Report not submitted 3 months late
3.	Ministry of Planning and Economic Affairs within 9 months of signing shall provide a report on progress made in dissolving the Liberia Coffee and Cocoa Corporation and evidence that the GOL has implemented the Liberian Palm Products retrenchment plan reducing budget and program.	Report not submitted 6 months late
4.	LPMC shall provide statements to USAID on quarterly basis on transfer of sales proceeds into the PL 480 special account.	No statements submitted
5.	Chairman of the Rice Committee will competitively bid commercial import licenses on a quarterly basis.	Not done
6.	The Ministry of Finance will provide certified quarterly reports to USAID showing allotment and expenditure data for all development projects listed in Agreement. Reports are to be submitted not later than 90 days after the end of each GOL FY quarter.	No reports submitted 6 months late
7.	The PL 480 coordinating committee established one month after signing of Agreement shall meet quarterly to determine policies, ensure that all self-help measures are met, monitor PL 480 sales, and ensure that all reports are submitted timely.	Committee has never met

APPENDIX 1

UNCLASSIFIED

ACTION: RIG-2 INFO: AMB DCM CHRON 5

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DE RUEHMV #5226/01 1261440
ZNR UUUUU ZZH
O 061434Z MAY 85
FM AMEMBASSY MONROVIA
TO RUTADS/AMEMBASSY DAKAR IMMEDIATE 0781
INFO RUEHC/SECSTATE WASHDC 6768
BT
UNCLAS SECTION 01 OF 03 MONROVIA 05226

AIDAC

FOR DAKAR FOR TOM ANKLEWICH, RIG/WA

E.O. 12356: N/A
SUBJECT: MISSION RESPONSE TO DRAFT AUDIT REPORT ON PL - 480, TITLE I - AUDIT REPORT NO. 7-669-85

REF: (A) STATE 118559, (B) MONROVIA 04588

1. THIS USAID/LIBERIA RESPONSE TO SUBJECT DRAFT AUDIT WILL CONSIST OF TWO PARTS: (A) SUGGESTED EDITORIAL OR TEXTUAL CHANGES AND, (B) UPDATED INFORMATION AND SUGGESTED MODIFICATIONS/AMENDMENTS TO RECOMMENDATIONS.

AUDITOR'S NOTE:

This portion of page 1 and page 2 of USAID/Liberia's response contain suggestions of a technical/editorial nature which were used to revise this audit report as appropriate.

AUDITOR'S NOTE:

This portion of page 3 of USAID/Liberia's response contain suggestions of a technical/editorial nature which were used to revise this audit report as appropriate.

3. MISSION COMMENTS ON RECOMMENDATION ONE:

A. THE SPECIAL ACCOUNT HAS BEEN REESTABLISHED IN THE AGRICULTURE AND COOPERATIVE DEVELOPMENT BANK (ACDB). GOL LETTER MPEA-336/A-L.2/'85 CONTAINSTHE FOLLOWING:

QUOTE: THE GOVERNMENT OF LIBERIA HAS CLOSED ALL PREVIOUS PL 480 PROCEEDS ACCOUNTS AT THE NATIONAL BANK OF LIBERIA AND CITIBANK AND HAS TRANSFERRED ALL SUCH FUNDS TO A SPECIAL ACCOUNT - PL 480 PROCEEDS ACCOUNT AT THE AGRICULTURE AND COOPERATIVE BANK. THE MINISTERS OF FINANCE AND PLANNING ARE SIGNATORIES TO THE ACCOUNT.

THE TOTAL FUNDS ACCOUNTED FOR SINCE MARCH IS AS FOLLOWS:

-	CITIBANK		$2.0 MILLION
-	NATIONAL BANK OF		
-	LIBERIA		3.5 "
-	LPMC SALES		2.9 "
-		TOTAL	$8.4

SOME PROJECTS HAVE ALREADY RECEIVED DISBURSEMENT FROM THE $2.0 FROM CITIBANK AND THE MANAGING DIRECTOR OF LPMC HAS BEEN AUTHORIZED TO TRANSFER THE BALANCE TO ACDB. THE NATIONAL BANK HAS ALSO BEEN AUTHORIZED TO TRANSFER THE $3.5M DEPOSITED BY THE TASK FORCE ON BEHALF OF LPMC. THE MANAGEMENT OF LPMC HAS ALSO BEEN INSTRUCTED TO DEPOSIT INTO THE ACDB ACCOUNT THE TOTAL SALES MADE SINCE MARCH (WHICH TOTAL $2.9 AS OF APRIL 18, 1985) AND ALL SUBSEQUENT SALES PROCEEDS. END QUOTE. AN AMENDMENT TO THE FY 84 MEMORANDUM OF UNDERSTANDING TO FORMALIZE THE ESTABLISHMENT AND FUNCTIONING OF THE SPECIAL ACCOUNT

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HAS BEEN SUGGESTED TO THE GOL AND SIGNATURE OF AN AMENDMENT ACCEPTABLE IN FORM AND SUBSTANCE TO AID WILL BE REQUIRED BEFORE A NEW PL 480 AGREEMENT IS SIGNED.

B. ACCORDING TO THE TABLE ON PAGE 9 OF THE DRAFT AUDIT, $16.5 MILLION IN COUNTERPART DEPOSITS ARE DUE FROM LPMC. LPMC DEPOSITS ARE CURRENTLY ABOUT $8.3 MILLION THUS DELINQUENT SALES PROCEEDS ARE ABOUT $8.2 MILLION. IN VIEW OF THE EXTREMELY TIGHT REVENUE SITUATION FACING THE GOL AND LPMC WE THINK IT IS UNREALISTIC TO EXPECT THAT THE FULL $8.2 MILLION IN OUTSTANDING FY 84 TITLE I PROCEEDS COULD BE DEPOSITED BEFORE THE SIGNATURE OF A NEW AGREEMENT. WE THINK A FIGURE OF $3 MILLION IS MORE LIKELY IN VIEW OF RICE SALES OVER THE PAST SEVERAL MONTHS. MISSION SUGGESTS THAT THE GOL BE GIVEN A REASONABLE LENGTH OF TIME AFTER THE SIGNING OF A NEW AGREEMENT TO DEPOSIT THE REMAINING $5.2 MILLION INTO THE PL 480 SPECIAL ACCOUNT AT ACDB. THE SCHEDULE OF PAYMENTS WILL BE NEGOTIATED WITH THE GOL PRIOR TO THE SIGNING OF THE FY 85 PL 480 AGREEMENT AND BE INCLUDED AS A SELF-HELP MEASURE IN THE AGREEMENT ITSELF WITH DETAILS OF THE DEPOSIT SCHEDULE PROVIDED IN THE MEMORANDUM OF UNDER-STANDING.

C. SUGGESTED TEXT OF RECOMMENDATION:

WE RECOMMEND THAT USAID/LIBERIA NOT ENTER INTO ANY

FURTHER PL 480 TITLE I AGREEMENTS WITH THE GOL UNTIL AN AGREEMENT IS REACHED ON A SCHEDULE OF PAYMENTS OF DELINQUENT SALES PROCEEDS INTO THE PL 480 SPECIAL ACCOUNT.

4. MISSION COMMENTS ON RECOMMENDATION TWO:

(A) MISSION ACCEPTS PART OF A AND B OF RECOMMENDATION NUMBER TWO. A PLAN FOR MEETING THE FINANCIAL NEEDS OF DEVELOPMENT PROJECTS AND THE DETAILS OF THE OPERATION AND FUNCTIONING OF THE PL 480 SPECIAL ACCOUNT WILL BE INCLUDED IN ANY FUTURE TITLE I AGREEMENT WITH THE DETAILS SET FORTH IN THE ACCOMPANYING MEMORANDUM OF UNDERSTANDING.

(B) IF RECOMMENDATION 2.C IS INTERPRETED TO REQUIRE USAID TO COUNTERSIGN CHECKS ISSUED FROM THE SPECIAL ACCOUNT THEN IT IS NOT FEASIBLE. AS POINTED OUT BY THE AUDITORS ON PAGE 11, PREVIOUS USAID ATTEMPTS TO ACHIEVE THIS END HAVE FAILED. IN OUR INFORMAL DISCUSSIONS WITH GOL OFFICALS, AGREEMENT IN PRINCIPAL HAS BEEN REACHED WHEREBY THE MINISTRY OF PLANNING WILL ADVISE THE USAID IN WRITING NOT LESS THAN SEVEN DAYS IN ADVANCE OF ITS INTENTION TO DISBURSE OR TRANSFER FUNDS FROM THE SPECIAL ACCOUNT AND AID WILL RESPOND WITHIN SEVEN WORKING DAYS AFTER RECEIPT OF THE GOL NOTIFICATION. THIS PROCEDURE TOGETHER WITH REGULAR REPORTS WHICH USAID WILL RECEIVE FROM ACDB ON THE USES OF COUNTERPART FUNDS WILL ENSURE THAT RELEASES FROM THE SPECIAL ACCOUNT WILL BE SOLELY IN ACCORDANCE WITH THE TERMS OF THE PL 480 AGREEMENT.

C. SUGGESTED TEXT OF RECOMMENDATION:

WE RECOMMEND THAT USAID/LIBERIA INCLUDE IN ANY FUTURE PL 480 AGREEMENTS WITH THE GOVERNMENT OF LIBERIA:

(A) A PLAN FOR MEETING THE FINANCIAL NEEDS OF DEVELOPMENT PROJECTS; (NO CHANGE)

(B) MAINTENANCE OF A SPECIAL ACCOUNT; AND (NO CHANGE)

(C) A REQUIREMENT THAT THE GOL ADVISE USAID NO LESS THAN SEVEN WORKING DAYS IN ADVANCE OF ITS INTENTION TO DISBURSE OR TRANSFER FUNDS FROM THE PL 480 SPECIAL ACCOUNT.

5. MISSION COMMENTS ON RECOMMENDATION THREE: NONE

6. MISSION COMMENTS ON RECOMMENDATION NO. 4:

(A) AS OF APRIL 27, LPMC RICE STOCKS STOOD AT 25,000 BAGS OR 1,137 MT. AT THE CURRENT SALES RATE ALL LPMC RICE STOCKS WILL BE EXHAUSTED BY EARLY MAY 1985. THE FACT THAT ALL OF LPMC'S RICE WILL BE SOLD BY THE DATE OF THE RELEASE OF THE FINAL AUDIT REPORT OBVIATES THE NEED FOR A CERTIFIED INVENTORY.

(B) NO COMMENT.

(C) SUGGESTED TEXT OF RECOMMENDATION:

WE RECOMMEND THAT USAID/LIBERIA ASSURE THAT THE GOVERN-
MENT OF LIBERIA ESTABLISHES INVENTORY CONTROLS AND
PROCEDURES OVER PL 480 COMMODITIES TO IMPROVE THE
RELIABILITY OF INVENTORY REPORTING.
7. MISSION COMMENTS ON RECOMMENDATION FIVE:

(A) THE GOL HAS BEEN ADVISED THAT ALL OUTSTANDING REPORTS INCLUDING SELF-HELP AND COUNTERPART GENERATION AND EXPENDITURE REPORTS MUST BE SUBMITTED BEFORE NEGOTIATIONS FOR ANOTHER TITLE I AGREEMENT CAN BEGIN.

(B) SUGGESTED RECOMMENDATION: NO CHANGE.

8. GOL HAS MET MOST OF PRECONDITIONSTO NEGOTIATIONS FOR A NEW PL 480 AGREEMENT AND IS EXTREMELY ANXIOUS TO INITIATE AND COMPLETE NEGOTIATIONS. THEREFORE, THE TIMING OF AN FY 85 PL 480 AGREEMENT IS DEPENDENT IN PART UPON THE ISSUANCE OF THE FINAL AUDIT REPORT AND THE FORMAL CLOSURE OF AUDIT RECOMMENDATION NO. 1. PLEASE ADVISE ESTIMATED DATE FOR ISSUANCE OF THE AUDIT. SWING
BT
#5226

NNNN

UNCLAS SECTION 03 OF 03 MONROVIA 05226

List of Report Recommendations

APPENDIX 3

LIST OF REPORT RECIPIENTS

	No. of Copies
USAID/Monrovia	5
Assistant Administrator - Bureau for Africa	5
Assistant to the Administrator for Management	1
AFR/CONT	5
AFR/PD	1
AFR/CCWA	1
XA	1
LEG	1
GC	1
OPA	2
Office of Financial Management (M/FM/ASD)	2
FVA/FFP/I	2
PPC/CDIE	3
USAID/Praia	1
USAID/N'Djamena	1
USAID/Accra	1
USAID/Conakry	1
USAID/Bamako	1
USAID/Nouakchott	1
USAID/Niamey	1
USAID/Freetown	1
USAID/Lome	1
USAID/Ouagadougou	1
USAID/Yaounde	1
USAID/Banjul	1
USAID/Bissau	1
USAID/Dakar	1
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AIG/II	1
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