

PDAAU-522

47701

AUDIT OF P.L. 480 TITLE II PROGRAMS
THE GAMBIA

Audit Report No. 7-635-87-3

November 21, 1986

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

November 21, 1986

MEMORANDUM FOR AID Representative, The Gambia, Byron Bahl
FROM: RIG/A/WA, John P. Competello
SUBJECT: Audit of P.L. 480 Title II Programs - The Gambia

This report presents the results of audit of P.L. 480 Title II programs in The Gambia. Please advise me within 30 days of any additional information relating to actions taken or planned to implement the audit recommendation. We appreciate the cooperation and courtesy extended our staff during the audit.

Background

In fiscal years 1984 and 1985, the Office of AID Representative/The Gambia (OAR/G) provided 13,150 metric tons of rice to the Government of The Gambia (GOTG) under two P.L. 480 Title II emergency programs. About 6,248 metric tons of this rice were sold for about \$1.8 million in local currency. The GOTG used a portion of the local currency to help pay for distribution of groundnut seeds needed as a result of the 1984 drought.

On July 18, 1986, a three-year P.L. 480 Title II Section 206 agreement was signed to provide 24,000 metric tons of rice to the GOTG. Sales of this rice were expected to amount to \$7.2 million in local currency.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/West Africa (RIG/A/WA) made a financial and compliance audit of the P.L. 480 Title II program in The Gambia. The 1984 and 1985 emergency food programs and the 1986 Section 206 program were reviewed. The objective was to determine if the GOTG complied with AID requirements to (1) deposit commodity sales proceeds in special accounts, and (2) submit program reports. This audit was part of an Africa-wide effort, led by the Office of the Regional Inspector General for Audit/East Africa, to evaluate the control over and use of local currency. Other information concerning The Gambia program may be reported by that office.

1/

The audit reviewed the OAR/G system for monitoring GOTG compliance with the program, including controls over sales proceeds. OAR/G officials were interviewed, and program files, documents and financial statements were examined. The audit was conducted in August 1986 and made in accordance with generally accepted government auditing standards.

Results of Audit

The GOTG did not fully comply with AID requirements contained in the 1984 and 1985 agreements to (1) promptly deposit commodity sales proceeds in special accounts, or (2) submit program financial reports. Recently, OAR/G had strengthened its monitoring and control of sales proceeds. For example, OAR/G required separate special accounts for each P.L. 480 Title II program to help prevent commingling of funds. Also, the 1986 agreement required that local currency be deposited in an interest-bearing account.

Nevertheless, non-compliance with provisions of the 1984 and 1985 agreements was a material internal control weakness. Therefore, we recommended that the OAR/G improve controls to monitor GOTG compliance with P.L. 480 Title II program agreements.

Need to Better Monitor Compliance With Program Agreements - The GOTG did not promptly deposit commodity sales proceeds in the special accounts, losing the opportunity to earn about \$100,000 of interest. The GOTG did not submit required monthly reports for the 1984 and 1985 programs. Also, lengthy OAR/G delay in payment of authorized expenses caused unnecessary local currency expenditures of about \$95,000. The OAR/G needed to improve its system for monitoring compliance with the P.L. 480 Title II program agreements.

Discussion - The 1984 P.L. 480 Title II agreement required the GOTG to deposit about \$500,000 of local currency in a Central Bank special account. The agreement implied that full deposit was to be made before commodities were sold with an initial deposit of 25 percent or about \$125,000. The 1985 agreement differed by requiring a deposit of about \$450,000 in local currency 15 days after the food was available for sale. The GOTG agreed both years to submit monthly reports, including amounts of currency generated, interest accrued, and deposits and disbursements in the special account.

The GOTG did not deposit commodity sales proceeds in special accounts as agreements specified, or comply with reporting requirements. For 1984, the GOTG deposited the required initial payment of 25 percent. However, the remainder of the 1984 monies were not deposited in the special account until January 17, 1985, after the GOTG sold the commodities to its food distribution agency. This deposit was to the wrong account, and the error was not discovered until March 19,

1985. In commenting on the draft report, OAR/G said the GOTG deposited the money before sale as required, but the Central Bank failed to make timely deposit to the appropriate account. The facts indicate that the majority of funds were not deposited in the special account until after the commodities were sold.

Proceeds from the 1985 program were also deposited late. About \$450,000 in sales proceeds were deposited in the special account eight months after the agreement deadline. In commenting on the draft report, OAR/G said circumstances were such that it was difficult to trace the money and rectify the problem.

The GOTG also did not provide the required monthly reports for the 1984 and 1985 programs. These reports would have assisted OAR/G in monitoring the timeliness of deposits under the 1984 and 1985 programs.

Because deposits were delayed to proper accounts, the opportunity to earn interest on account balances was lost. Had deposits been made as required, funds from the 1984 and 1985 programs could have earned about \$100,000 in interest. The average annual sales proceeds expected under the 1986 program could earn about \$300,000 of interest.

In commenting on the draft report, OAR/G agreed that under normal economic conditions, local currency should be deposited in an interest-bearing account. OAR/G would have considered this if AID/W or the Regional Food for Peace Officer had so instructed. OAR/G argued that during 1984 and 1985, the GOTG banking sector was operating under strict interest rate ceilings which eroded its ability to sustain interest payments on savings accounts. Under these conditions, OAR/G concluded it was virtually impossible to establish an interest-bearing account at that time. OAR/G stated that the proceeds from the 1986 program will be placed in an interest-bearing account since the country's economic situation had changed.

The audit also found that authorized disbursements of about \$460,000 in local currency were not promptly paid, resulting in interest expenses of about \$95,000. In 1985, the GOTG borrowed money to finance distribution of groundnut seeds. Subsequently, the GOTG requested OAR/G approval to transfer funds from the special account to pay off part of the loan. Eleven months later, OAR/G approved the transfer. By that time, \$95,000 of interest expenses had accrued, representing about 20 percent of the authorized disbursement. The delay occurred because OAR/G believed additional supporting documents were needed from the GOTG, but did not specify which ones. OAR/G's oversight of account disbursements could have been improved if the GOTG had provided the required monthly reports and the Central Bank had provided account statements.

In commenting on the draft report, OAR/G agreed the payment had been delayed by 11 months but said that two sensitive factors, which were not documented, contributed to the delay. OAR/G cited (1) possible GOTG reconsideration of its request to pay for groundnut seed distribution, and (2) large scale corruption at the responsible government agency.

Although OAR/G was responsible for monitoring compliance with program agreements, it had not established an effective system. The system

- did not rely on periodic bank statements or other accounting documents. However, had a commercial bank been used to deposit sales proceeds, the possibility of commingling these proceeds with other government funds could have been reduced and a better audit trail could have been provided.
- did not provide regular review to determine if sales proceeds were being deposited and disbursed in accordance with agreements, and if required reports were regularly submitted. Systematic review would have highlighted the need for management action to obtain host government compliance.

In commenting on the draft report, OAR/G provided additional information on its proposed monitoring system and outlined procedures to avoid problems encountered in the 1984 and 1985 programs. Proposed procedures were: (1) establish an Executive Steering Committee composed of GOTG and AID representatives, (2) define and schedule events and reports, (3) expand OAR/G oversight from one project officer to a committee, and (4) satisfy several conditions before authorizing additional commodities and use of funds.

Recommendation No. 1

We recommend that the AID Representative, The Gambia, establish an effective system to monitor compliance with P.L. 480 Title II program provisions. The system should include (1) review of Central Bank account statements, (2) regular monitoring of compliance with program provisions, and (3) effective enforcement procedures.

OAR/G expressed a number of concerns about the draft audit report, including that the auditors had not sufficiently explained that a separate report on The Gambia would be issued. Also, OAR/G said the report omitted certain facts, contained some inaccuracies, and was misleading in some cases. OAR/G provided additional information on deposits to the special account, interest, and payment for groundnut seed distribution. In addition, OAR/G said it had designed a system

in the 1986 Program Assistance Approval Document to strengthen program monitoring and control. However, OAR/C stated that, instead of a commercial bank, the Central Bank would hold the special account deposits. Under International Monetary Fund guidelines, all government transactions must be processed through the Central Bank; hence, it was not possible to use a commercial bank. The complete text of OAR/G comments is in Appendix I.

OAR/G comments have been considered and changes have been made to the report as appropriate. RIG/A/WA believes that OAR/G officials were appropriately advised, both at the beginning and end of audit field work, of the potential for reporting on The Gambia P.L. 480 Title II program. Also, audit issues contained in the draft report were discussed with the AID Representative and other senior OAR/G officials when audit field work concluded.

The auditors reviewed all files made available to them. When the issue of earning interest on special accounts was discussed, OAR/G officials did not know why the special accounts for 1984 and 1985 had not been established. Based on the auditors' request, the OAR/G project officer searched for, but could not find, records or other documentation on this issue. RIG/A/WA suggests that, in the future, OAR/G better document program decisions for subsequent audit.

OAR/G's plan to improve monitoring of GOTG compliance with P.L. 480 Title II agreements is responsive to the report recommendation. The use of the Central Bank rather than a commercial bank is understood under the existing circumstances in The Gambia. Therefore, the draft report recommendation was changed. The recommendation is considered resolved and will be closed upon satisfactory evidence that the Central Bank is providing periodic statements of account.

**AUDIT OF P.L. 480 TITLE II PROGRAM
THE GAMBIA**

Appendices

ACTION: RIG INFO: DCM

VZCZCTAA553ESC076
 OC RUTADS
 DE RUFHJL #3431/01 3091232
 ZNR UUUUU ZZH
 O 051228Z NOV 86
 FM AMEMBASSY BANJUL
 TO RUTADS/AMEMBASSY DAKAR IMMEDIATE 1987
 INFO RUFHC/SECSTATE WASHDC 3484
 FT
 UNCLAS SECTION 01 OF 04 BANJUL 03431

LOC: 039
 05 NOV 86
 CN: 34741
 CHRG: AID
 DIST: AID

AIDAC

DAKAR FOR JOHN COMPETELLO, RIG/A/WA;
 SECSTATE FOR FVA/FFP VOGLEW, AND AFR/SWA

E.C.12356 N/A

SUBJECT: DRAFT AUDIT REPORT OF PL-480 TITLE II PROGRAMS -
 THE GAMBIA DATED SEPTEMBER 23, 1986

REF: A. COMPETELLO MEMORANDUM SEPTEMBER 28, 1986,
 - B. STATE 332023

1. MISSION WAS SURPRISED TO RECEIVE SUBJECT REPORT LABELLED AS QUOTE AUDIT REPORT UNQUOTE. IT WAS OUR UNDERSTANDING FROM AUDITORS WHO EXAMINED OUR FILES THAT THIS EXERCISE WAS A QUOTE REVIEW UNQUOTE - AN INFORMAL LCCA AT THE RECORDS. WE HAVE NO OBJECTION TO THE REPORT'S BEING FORMALIZED AS AN AUDIT EXCEPT TO NOTE THAT WE WOULD HAVE INSISTED ON A FULL REVIEW OF FINDINGS BEFORE THE AUDITORS DEPARTED HAD WE KNOWN THAT THE DRAFT REPORT WAS INTENDED FOR DISTRIBUTION OUTSIDE THE MISSION. SUCH A REVIEW WOULD HAVE GIVEN US A CHANCE TO SUPPLY ADDITIONAL FILES TO THE AUDIT TEAM AS WELL AS INFORMATION NOT IN THE FILES TO GIVE THE AUDITORS A MORE COMPLETE PICTURE OF THE PROGRAM AND TO EXPLAIN WHY THE PROGRAM WORKED THE WAY IT DID. IN THE EVENT, WE ARE SUPPLYING SUCH INFORMATION HEREIN. THE FOLLOWING COMMENTS COVER THOSE FINDINGS OF THE DRAFT WHICH THE MISSION FEELS ARE INACCURATE OR NOT SUFFICIENTLY EXPLAINED.
2. ON PAGE 3 AND 4 UNDER PARAGRAPH STARTING QUOTE DISCUSSION UNQUOTE THE REPORT STATES QUOTE THE 1984 AGREEMENT DID NOT ESTABLISH A TIME FRAME FOR FULL DEPOSIT OF SALES PROCEEDS, UNQUOTE. THIS IS MISLEADING BECAUSE WE DID NOT WAIT FOR COLLECTION OF SALES PROCEEDS BUT INSISTED THE GOVERNMENT DEPOSIT A SUM EQUAL TO EVENTUAL PROCEEDS IN ADVANCE OF SALES. THE MEMORANDUM OF UNDERSTANDING COVERING THE 1984 AGREEMENT STATED IN PARA 4-DEPOSIT OF PROCEEDS; QUOTE THE GOTG WILL DEPOSIT IN A SEPARATE DEPOSIT ACCOUNT AT THE CENTRAL BANK AN AMOUNT EQUAL TO THE ENTIRE STOCK AUTHORIZED FOR SALE (I.E. 2,400 MT D866/MT DALASIS 2,078,400), OR A LESSER AMOUNT EQUAL TO THE STOCK THE GOTG IS PREPARED TO RELEASE FOR SALE. IN ANY CASE, THE INITIAL AMOUNT DEPOSITED AND MAINTAINED IN THE ACCOUNT WILL BE AT LEAST ONE QUARTER OF THE TOTAL AMOUNT TO BE SOLD. UNQUOTE.

UNCLASSIFIED

UNDER THIS SYSTEM THE GOTG DEPOSITED THE PRICE OF THE RICE BEFORE SALE RATHER THAN WAIT FOR COLLECTION OF SALES PROCEEDS. THE AMOUNTS WERE TRANSFERRED AS FOLLOWS: ON 14 NOVEMBER 1984, D520,000 OR ONE-FOURTH OF TOTAL TO BE SOLD, AND ON 9 JANUARY 1985 THE BALANCE D2,072,400 WAS TRANSFERRED TO THE CENTRAL BANK. UPON NOTIFICATION OF THESE TRANSFERS USAID CONSIDERED THE CONDITIONS OF THIS PARAGRAPH SATISFIED. IT WAS ONLY LATER THAT WE LEARNED FROM THE ACCOUNTANT GENERAL'S OFFICE THAT THE CENTRAL BANK HAD FAILED TO DEPOSIT THE FUNDS IT HAD RECEIVED INTO THE APPROPRIATE ACCOUNT IN A TIMELY FASHION. THE ACCOUNTANT GENERAL PURSUED THE MATTER AND IT WAS EVENTUALLY RESOLVED. IN ANY CASE, EXCEPT FOR THE INEFFICIENCY OF THE CENTRAL BANK, THE GOVERNMENT OFFICES CONCERNED (DROUGHT RELIEF COMMITTEE, VICE PRESIDENT'S OFFICE AND GPMB) LIVED UP TO THE TERMS OF THE AGREEMENT.

3. THE COMMENT (PAGE 4 PARA 2) THAT, QUOTE THE 1984 INITIAL DEPOSIT OF ABOUT D500,000 WAS NOT MADE UNTIL 5 MONTHS AFTER THE FOOD ARRIVED UNQUOTE IS MISLEADING BECAUSE THE DEPOSITS WERE REQUIRED NOT ON ARRIVAL OF SHIPMENT BUT BEFORE SALE. THE DEPOSITS IN NOVEMBER AND JANUARY WERE CONSISTENT WITH THIS AGREEMENT. NOTE ALSO THAT THE INITIAL DEPOSIT WAS DALLAS 520,000 NOT QUOTE DOLLARS 500,000 UNQUOTE. THE REPORT SHOULD BE CHECKED FOR LABELLING ACCURACY THROUGHOUT, ESPECIALLY WHERE SUPPOSED INTEREST INCOME IS MENTIONED.

4. THE REPORT IS CORRECT IN STATING THAT PROCEEDS FOR THE 1985 PROGRAM WERE NOT DEPOSITED ON TIME. (THE MEMO OF UNDERSTANDING REQUIRED PROCEEDS FOR THIS SHIPMENT TO BE DEPOSITED 15 DAYS AFTER SALE.) OUR INITIAL INQUIRY TO THE DROUGHT COMMITTEE BROUGHT WORD FROM THE VICE PRESIDENT'S OFFICE ON OCTOBER 26 THAT THE PROCEEDS HAD BEEN COLLECTED. THEIR DEPOSIT WAS TO HAVE FOLLOWED AUTOMATICALLY. IT WAS NOT UNTIL FEBRUARY, HOWEVER, THAT WE FORMALLY ESTABLISHED THIS DEPOSIT HAD NOT BEEN MADE. BECAUSE OF CHANGES IN PERSONNEL IN THE CENTRAL BANK, THE ABSENCE OF KNOWLEDGEABLE PERSONNEL IN THE ACCOUNTANT GENERAL'S OFFICE, IN GPMB, AND IN THE VICE PRESIDENT'S OFFICE, IT WAS DIFFICULT TO FIND OUT JUST WHERE THE MONEY WAS AND TO GET THE PROBLEM RECTIFIED. THE ELAPSED TIME FROM THE SALE ITSELF TO AUTHORIZED TRANSFER OF THE PROCEEDS WAS ABOUT SIX MONTHS. AGAIN WE HAD TO PROD THE

UNCLASSIFIED

BANJUL 003431/01

5

CENTRAL BANK TO MAKE THE TRANSFER WHICH THEY FINALLY DID TWO MONTHS LATER. THE MISSION ALERTED THE MINISTER OF FINANCE EARLY ON IN THIS PROCESS AND HE WAS ACTIVELY INVOLVED IN CARRYING IT THROUGH TO THE END.

5. ON PAGE 5 OF THE REPORT IT IS STATED THAT THE MISSION MANAGEMENT SYSTEM DID NOT QUOTE INCLUDE AN EFFECTIVE POLICY TO ENFORCE PROVISIONS. FOR EXAMPLE THE OAR COULD HAVE CREATED A POLICY TO DELAY SUBSEQUENT FOOD SHIPMENTS UNTIL OUTSTANDING PROCEEDS FROM PRIOR PROGRAMS WERE DEPOSITED UNQUOTE. IN FACT, THE MISSION DID HAVE SUCH A POLICY AND EMPLOYED IT AS THE AID REPRESENTATIVE'S LETTERS OF MARCH 12, 1986 AND MAY 20, 1986 TO THE MINISTER OF FINANCE AND TRADE ATTEST. COPIES OF THESE LETTERS ARE IN THE TITLE II PL-480 SECTION 206 PROGRAM FILE. BOTH LETTERS INDICATED DELAY OF AND POSSIBLE CANCELLATION OF THE 206 PROGRAM IF THE FUNDS COLLECTED AS PROCEEDS TO SALE OF THE 1985 EMERGENCY RICE SHIPMENT WERE NOT DEPOSITED TO THE PROPER ACCOUNT. WE WOULD NOT HAVE SIGNED THE TA FOR THE 206 PROGRAM IF THESE DEPOSITS WERE NOT MADE. HAPPILY THE GOVERNMENT STRAIGHTENED OUT ITS PROBLEMS AND MADE THE DEPOSIT IN TIME TO AVOID THIS.

6. THE AUDIT REPORT STATES THAT THE LOCAL CURRENCY SHOULD HAVE BEEN DEPOSITED IN AN INTEREST-BEARING ACCOUNT. UNDER NORMAL ECONOMIC CONDITIONS THIS WOULD HAVE BEEN ADVISABLE AND, IN ANY CASE, WE WOULD HAVE ACTIVELY CONSIDERED IT HAD WE BEEN SO INSTRUCTED BY AID/W OR THE RFFPO. DURING 1984 AND 1985, HOWEVER, THE BANKING SECTOR WAS OPERATING UNDER STRICT INTEREST RATE CEILINGS WHICH ERODED ITS ABILITY TO SUSTAIN INTEREST PAYMENTS ON SAVINGS ACCOUNTS. THE CENTRAL BANK, FOR EXAMPLE, WAS LIMITED BY GOVERNMENT TO CHARGING ONLY 8 TO 11 PERCENT ON ITS LOANS TO GOVERNMENT STATE-OWNED ENTERPRISES. COMMERCIAL BANKS OPERATED UNDER SIMILAR CONSTRAINTS REGARDING INTEREST RATES ON LOANS TO THE PRIVATE SECTOR. WITH ANNUAL INFLATION RATES OF 15.6 PERCENT (1984) AND 21.7 PERCENT (1985), BANKS WERE LOSING MONEY ON THEIR LOANS, RENDERING THEM INCAPABLE OF PAYING INTEREST ON DEPOSITS SUCH AS OURS. INDEED, BANKS WERE NOT ENCOURAGING SAVINGS ACCOUNTS BECAUSE PAYING INTEREST ON DEPOSITS INCREASED THEIR EXPENDITURES. GIVEN THIS ENVIRONMENT, IT WAS VIRTUALLY IMPOSSIBLE FOR US TO ESTABLISH AN INTEREST-BEARING ACCOUNT AT THAT TIME. FYI: IF THE MACRO ECONOMIC SITUATION WAS STABLE, IF THE COUNTRY'S FINANCES WERE IN ORDER, AND IF THESE FUNDS WERE BEING USED FOR MICRO ECONOMIC PURPOSES, THEN LATE DEPOSIT OF SALES PROCEEDS WOULD HAVE REPRESENTED A QUOTE MATERIAL INTERNAL CONTROL WEAKNESS UNQUOTE. (DRAFT REPORT PAGE 3 SECOND FULL PARAGRAPH). HOWEVER, IN OUR PARTICULAR CIRCUMSTANCES DESCRIBED ABOVE WE DON'T BELIEVE THEY DID. END FYI.

7. THE ECONOMIC SITUATION IN THE GAMBIA RECENTLY CHANGED AND OUR SECTION 206 PROGRAM REFLECTS THOSE CHANGES AND CONFORMS TO THE AUDIT RECOMMENDATIONS. THE

UNCLAS SECTION 02 OF 04 BANJUL 03431

LOCAL CURRENCY WILL BE DEPOSITED IN AN INTEREST-BEARING ACCOUNT AT THE CENTRAL BANK. IT WAS NOT POSSIBLE TO ESTABLISH THE ACCOUNT AT A COMMERCIAL BANK BECAUSE UNDER IMF GUIDELINES, IMPOSED AS PART OF THEIR STAND-BY AGREEMENT, ALL GOVERNMENT TRANSACTIONS MUST BE PROCESSED THROUGH THE CENTRAL BANK TO FACILITATE THE MONITORING OF FINANCIAL TARGETS. AND NOW THAT THE GOVERNMENT HAS ABOLISHED THE CEILING ON INTEREST RATES, THE CENTRAL BANK AND COMMERCIAL BANKS CAN CHARGE ENOUGH INTEREST ON THEIR LOANS TO RECOVER THEIR COSTS AND SUSTAIN INTEREST PAYMENTS ON SAVINGS ACCOUNTS. FURTHERMORE, A BRITISH BANKING EXPERT HAS BEEN APPOINTED GENERAL MANAGER OF THE CENTRAL BANK AND TWO OTHER EXPATRIATE ADVISORS HAVE BEEN PUT IN KEY POSITIONS WITHIN THE BANK TO ENSURE THAT PROPER BANKING PROCEDURES ARE FOLLOWED (E.G. NO COMINGLING OF FUNDS), AND THAT LOCAL STAFF ARE TRAINED IN THESE MODERN METHODS, TOO. WITH THE INSTALLATION OF COMPUTER EQUIPMENT TO UPDATE THE WHOLE ACCOUNTING SYSTEM, THE CENTRAL BANK WILL BE ABLE TO PROVIDE USAID WITH PERIODIC STATEMENTS OF ACCOUNT ACTIVITY AS WELL. FYI: DEPOSITING FUNDS IN COMMERCIAL BANKS IS NO GUARANTEE OF RECEIVING MONTHLY STATEMENTS. END FYI.

UNCLAS SECTION 02 OF 04 BANJUL 03431

8. ON PAGE 4 LAST PARAGRAPH THE REPORT SAYS QUOTE IN ADDITION, AUTHORIZED EXPENSES WERE NOT PROMPTLY PAID RESULTING IN UNNECESSARY INTEREST EXPENSE OF \$120,000 UNQUOTE. THIS REFERS TO PAYMENT FOR SEED DISTRIBUTION MADE BY THE GAMBIA COOP UNION (GCU) FOR THE 1985 PLANTING SEASON. IT IS TRUE THAT IT DID TAKE 11 MONTHS TO PAY THIS CLAIM AND PART OF THE REASON WAS THAT SUFFICIENT SUPPORTING DOCUMENTATION WAS NOT PRESENTED. BUT THERE WERE TWO OTHER FACTORS WHICH CONTRIBUTED TO THE DELAY AND WERE SENSITIVE IN NATURE, AND NOT DOCUMENTED IN THE FILES. FIRST, THE GOVERNMENT WAS FACING A TREMENDOUS FINANCIAL BURDEN BECAUSE OF THE GAP BETWEEN THE PRICE IT WOULD RECEIVE ON WORLD MARKETS FOR ITS GROUNDNUT EXPORTS AND THE PRICE IT WAS COMMITTED TO PAY FARMERS. CERTAIN HIGH RANKING OFFICIALS WERE CONSIDERING WITHDRAWAL OF THE REQUEST TO PAY FOR GROUNDNUT SEED DISTRIBUTION IN ORDER TO USE THE FUNDS TO COVER THIS GAP IN GROUNDNUT PRICES. WHILE WE WERE NEVER TOLD OFFICIALLY NOT TO PAY THE CLAIM, WE WERE NOT ENCOURAGED TO PAY IT PROMPTLY EITHER. THE SECOND REASON FOR THE DELAY WAS THAT LARGE SCALE CORRUPTION WAS DISCOVERED AT THE GAMBIA COOPERATIVE UNION (GCU). THEIR LOGS WERE IMPOUNDED AND MUCH OF THE LEADERSHIP WAS EITHER UNDER ARREST OR INVESTIGATION FOR VARIOUS CRIMES. AS A RESULT, THERE WAS NO ONE IN THE FINANCIAL MANAGEMENT STAFF OF THE GCU TO WORK WITH TO OBTAIN THE DOCUMENTATION REQUIRED FOR PAYMENT. AS SO OFTEN HAPPENS IN THESE SITUATIONS, IT TOOK MONTHS BEFORE WE COULD BE SURE THAT THE SEED DISTRIBUTION HAD BEEN PROPERLY MADE, THAT FUNDS FOR SEED DISTRIBUTION HAD IN FACT BEEN USED FOR THAT PURPOSE, AND THAT THERE WAS AN ACCOUNT AT THE COMMERCIAL DEVELOPMENT BANK ACCURATELY REFLECTING THE BALANCE OWED. ONCE WE WERE CERTAIN THAT EVERYTHING WAS IN ORDER, WE AUTHORIZED THE TRANSFER OF FUNDS, WHICH WAS EFFECTED WITHIN ONE WEEK. THE OTHER ISSUE HAD BEEN INFORMALLY SETTLED IN FEBRUARY OF 1986 WHEN THE GOVERNMENT DECIDED TO USE THE FUNDS TO REIMBURSE GCU INSTEAD OF USING THEM TO COVER GROUNDNUT PRICES.

9. RECOMMENDATION 1 REQUIRES THE ESTABLISHMENT OF QUOTE AN EFFECTIVE SYSTEM TO MONITOR COMPLIANCE WITH P.L. 480 PROGRAM PROVISIONS UNQUOTE. THE PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD) FOR THE PL 480 TITLE II SECTION 200 PROGRAM, SECTION VI, IMPLEMENTATION PLAN, PAGES 64-72 DESCRIBES THE EFFECTIVE MONITORING SYSTEM TO BE ESTABLISHED FOR THIS PROGRAM. THE MAIN COMPONENTS ARE AN EXECUTIVE STEERING COMMITTEE COMPOSED OF GOIG AND AID REPRESENTATIVES. ESTABLISHMENT OF THIS COMMITTEE WILL AVOID THE PROBLEMS WE ENCOUNTERED IN EARLIER SALES PROGRAMS WHEN WE DEALT THROUGH ONE INDIVIDUAL WHO DID NOT HAVE SUFFICIENT OR CONSISTANT STAFF BACK UP. ALSO IN THIS PROGRAM, THE VARIOUS EVENTS REQUIRING ACTION AND THE REPORTS REQUIRED ARE CLEARLY DEFINED AND SCHEDULED SO THAT ALL PARTIES INVOLVED UNDERSTAND WHAT IS REQUIRED. THIS LIST IS BEING REFINED AND EXPANDED AS NECESSARY. MISSION REPRESENTATIVES HAVE EXPLAINED THE IMPLEMENTATION

UNCLAS SECTION 07 OF 04 PANJUL 07431

REQUIREMENTS TO MINISTRY OF FINANCE AND TRADE (MOFT) OFFICIALS AND WILL ENSURE THAT THE OTHER STEERING COMMITTEE MEMBERS UNDERSTAND WHAT IS EXPECTED OF THEM. WITHIN THE MISSION, OVERSIGHT HAS BEEN EXPANDED FROM ONE PROJECT OFFICER TO A COMMITTEE, INDIVIDUAL MEMBERS OF WHICH WILL HAVE RESPONSIBILITY FOR CERTAIN ASPECTS OF THE PROGRAM. THE COMMITTEE IS ESTABLISHING A VERT SYSTEM WHICH WILL BE REGULARLY REVIEWED FOR COMPLIANCE. 10. THE PAAD AND THE TA CONTAIN SEVERAL CONDITIONS WHICH MUST BE SATISFIED BEFORE SUCCESSIVE CALLS FORWARD AND USE OF FUNDS ASSOCIATED WITH THEM WILL BE AUTHORIZED. THESE MEASURES ARE THE BASIS OF THE QUOTE EFFECTIVE ENFORCEMENT PROCEDURES UNQUOTE CALLED FOR BY THE AUDITORS

11. RECOMMENDATION 1 SUGGESTS THAT AN EFFECTIVE MONITORING SYSTEM SHOULD INCLUDE ACCOUNTS IN A COMMERCIAL BANK. FOR REASONS DESCRIBED ABOVE, DEPOSITS WILL BE MADE TO CENTRAL BANK ACCOUNTS. HOWEVER, THE CENTRAL BANK WILL PAY INTEREST ON THE TITLE II PROCEEDS ACCOUNT AND HAS ASSURED US THEY WILL PROVIDE REPORTS ON EACH TRANSACTION AND PERIODIC REPORTS ON THE STATUS OF THE ACCOUNTS. THIS SHOULD TAKE CARE OF TWO PRINCIPLE DEFICIENCIES OF THE PRIOR PROGRAMS NOTED BY THE AUDITORS.

12. MISSION NOTES THAT IN SEVERAL PLACES ON PAGES FIVE AND SIX OF THE DRAFT REPORT THERE IS COMMENT THAT THE MISSION AGREES, ACKNOWLEDGES, OR BELIEVES. WE FEEL THAT THIS SORT OF COMMENT SHOULD BE LEFT OUT OF THE FINAL REPORT. IN OUR ESTIMATION THE REPORT SHOULD BE RESTRICTED TO THE FINDINGS AND RECOMMENDATIONS OF THE AUDITORS. OFFICIAL MISSION COMMENTS ARE INCLUDED IN THIS REPLY.

13. WE LOOK FORWARD TO RECEIVING YOUR FINAL REPORT AND ANY COMMENT YOU WISH TO MAKE ABOUT OUR RESPONSE TO THE DRAFT.

HOROWITZ
BT
#3431

NNNN

UNCLAS SECTION 04 OF 04 BANJUL 03431

16

Report Distribution

| | <u>No. of Copies</u> |
|--------------------------------|--------------------------|
| AID Representative, The Gambia | 5 |
| AA/AFR | 1 |
| AA/M | 2 |
| AA/FVA/FFP | 5 |
| AFR/CONT | 5 |
| AFR/PD | 1 |
| AFR/SWA | 1 |
| AA/XA | 2 |
| LEG | 1 |
| GC | 1 |
| XA/PR | 1 |
| M/FM/ASD | 2 |
| PPC/CDIE | 3 |
| REDSO/WCA | 1 |
| REDSO/WCA/WAAC | 1 |
| USAID/Burkina Faso | 1 |
| USAID/Cameroon | 1 |
| USAID/Cape Verde | 1 |
| USAID/Chad | 1 |
| USAID/Ghana | 1 |
| USAID/Guinea | 1 |
| USAID/Guinea-Bissau | 1 |
| USAID/Liberia | 1 |
| USAID/Mali | 1 |
| USAID/Mauritania | 1 |
| USAID/Niger | 1 |
| USAID/Senegal | 1 |
| USAID/Sierra Leone | 1 |
| USAID/Togo | 1 |
| USAID/Zaire | 1 |
| IG | 1 |
| AIG/A | 1 |
| IG/PPO | 2 |
| IG/LC | 1 |
| IG/EMS/C&R | 12 |
| AIG/II | 1 |
| RIG/II/Dakar | 1 |
| RIG/A/Cairo | 1 |
| RIG/A/Manila | 1 |
| RIG/A/Nairobi | 1 |
| RIG/A/Singapore | 1 |
| RIG/A/Tegucigalpa | 1 |
| RIG/A/Washington | 1 |
| Director PSA Washington (IG) | 1 |