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AUDIT OF USAID/ECUADOR  
PL 480 TITLE I LOCAL CURRENCY GENERATIONS

Audit Report No. 1-518-87-36  
July 27, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT

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July 27, 1987

MEMORANDUM

TO : USAID/Ecuador Director, Frank Almaguer  
FROM : RIG/A/T, *Coinage N. Gothard*  
SUBJECT: Audit of USAID/Ecuador PL 480 Title I Local Currency Generations

This report presents the results of audit of USAID/Ecuador PL 480 Title I local currency generations.

The Office of the Regional Inspector General for Audit/Tegucigalpa made a financial and compliance audit of USAID/Ecuador's PL 480 Title I local currency generations. The objectives of the audit were to determine the establishment of adequate financial and operational controls to ensure that funds were used for intended purposes and to determine compliance with AID and program requirements. We did not review end uses of funds nor did we examine the internal controls established by the end-users.

The financial and operational controls established for the PL 480 Title I program were not fully adequate to ensure that local currency funds were used for intended purposes. Also, compliance with some program requirements was lacking.

The PL 480 Title I Implementation Secretariat was not able to fulfill all of its monitoring responsibilities such as maintaining complete files, verifying the accuracy of financial accounts, making site visits of activities, or reviewing vouchers. An independent audit firm had not been contracted to verify whether funds had been used as intended or whether the requirements and objectives of the activities had been fulfilled. USAID/Ecuador and the Government of Ecuador did not fully comply with program requirements to finance the expenses of the Implementation Secretariat with PL 480 Title I funds and to contract the services of a full-time Executive Secretary. Finally, the Ministry of Agriculture did not provide office space for the Implementation Secretariat as required.

Also, contrary to the provisions of AID Handbook 19, PL 480 Title I local currency generations were initially transferred to USAID/Ecuador under a trust fund agreement and deposited into a local bank account in the name of the USAID/Controller rather than with the U.S. Disbursing Officer, as required by U.S. Treasury regulations. USAID/Ecuador accounting and disbursement controls over the local bank account were very weak. The USAID/Ecuador trust fund account was closed on July 10, 1986 and the remaining funds (which we accounted for) were returned to the GOE. This matter is fully discussed in a separate report entitled Audit of Selected USAID/Ecuador Activities.

This report recommends that: a firm be contracted to provide staff to help the Implementation Secretariat fulfill its monitoring functions; an independent audit firm be contracted to audit the activities of the program; PL 480 Title I funds be used to reimburse personnel costs financed by USAID/Ecuador; the services of a full-time Executive Secretary be contracted; and office space be provided for the Implementation Secretariat by the Ministry of Agriculture. The first recommendation is closed on the date of this report.

USAID/Ecuador agreed with the report findings and recommendations, but suggested a number of changes which have been incorporated where appropriate. The Mission's detailed comments and our response are presented in Appendix 2.

Please advise this office within 30 days of the actions planned or taken to implement the recommendations which remain open.

## EXECUTIVE SUMMARY

On May 17, 1985 the Government of Ecuador and the United States of America signed a loan agreement for the sale of \$15 million of agricultural commodities under Title I of U.S. Public Law 480. The local currency generated from the sale of these commodities was to be jointly programmed by the Government of Ecuador and A.I.D. for activities supporting the development of the rural and agricultural sectors in Ecuador. Accordingly, 31 activities had been approved and initiated to achieve this goal. As of December 31, 1986, approximately \$6.4 million in local currency had been disbursed to those activities. The Implementation Secretariat under the Ministry of Agriculture was responsible for management of the program.

The Office of the Regional Inspector General for Audit/Tegucigalpa made a financial and compliance audit of USAID/Ecuador's PL 480 Title I Local Currency Generations. The objectives of the audit were to determine the establishment of adequate financial and operational controls to ensure that funds had been used for intended purposes, and that AID program requirements had been complied with. We did not review end-uses of funds nor did we examine the internal controls established by the end-users. The audit covered the period from May 17, 1985 to December 31, 1986, and included local currency generations of \$14.9 million.

The financial and operational controls established for the PL 480 Title I program were not fully adequate to ensure that local currency funds were used for intended purposes. Also, compliance with some program requirements was lacking.

The PL 480 Title I Implementation Secretariat was not able to fulfill all of its monitoring responsibilities such as maintaining complete files, verifying the accuracy of financial accounts, making site visits to activities, and reviewing vouchers. An independent audit firm had not been contracted to verify whether funds had been used as intended or whether the requirements and objectives of the activities had been fulfilled. USAID/Ecuador did not fully comply with program requirements to finance the expenses of the Implementation Secretariat with PL 480 Title I funds or to contract the services of a full-time Executive Secretary. Finally, the Ministry of Agriculture did not provide office space for the Implementation Secretariat as required.

Also, contrary to AID Handbook 19, PL 480 Title I local currency generations were initially transferred to USAID/Ecuador under a trust fund agreement and deposited into an irregular local bank account in the name of the USAID/Controller rather than opening a trust account with the U.S. Disbursing Officer in Mexico as required. USAID/Ecuador accounting and disbursement controls over this account were very weak. The USAID/Ecuador trust fund account was closed on July 10, 1986 and the remaining funds (which we accounted for) were returned to the Government of Ecuador. This matter is fully discussed in a separate report entitled Audit of Selected USAID/Ecuador Activities.

Implementation Letter No. 6 contained 11 functions to be performed by the Implementation Secretariat; some of these functions were: a) maintain complete and up-to-date files on all proposed activities; b) maintain complete and accurate financial accounts of local currency programming and uses; c) perform on-site verification (physical and financial) of the activities financed with local currency; d) assist in arranging for audits and evaluations of the approved activities. The Secretariat had not adequately performed at least 5 of its 11 functions because it lacked sufficient staff. As a result, there were no assurances that PL 480 Title I local currencies had been used as intended. The report recommends that a firm be contracted to provide the staff to help the Secretariat perform its monitoring functions. USAID/Ecuador implemented the recommendation on April 6, 1987. Accordingly, the recommendation is closed on the date of this report.

The PL 480 Title I Loan Agreement required that the local currency funds provided under the program would be subject to audit by an independent firm. As of December 31, 1986, no audits had been made of approximately \$6.4 million in local currency disbursed to 31 PL 480 Title I activities. The Executive Secretary of the Implementation Secretariat attributed the lack of audit coverage to the fact that a firm had not been contracted. As a result, there was no assurance that \$6.4 million in local currency funds had been used as intended or whether the requirements and objectives of the activities had been fulfilled. The report recommends that an auditing firm be contracted to audit the activities. USAID/Ecuador agreed with our recommendation and reached an agreement in principle on this matter with the Ministry of Agriculture.

According to the PL 480 Title I Memorandum of Understanding, dated May 17, 1985, the expenses of the Implementation Secretariat (Secretariat) were to be financed from local currency proceeds and the USAID was authorized to contract the employees for the Secretariat. USAID did not fully comply with these requirements in contracting personnel for the Secretariat for the following three reasons: first, the USAID used Program Development and Support Funds to pay for some of the salaries of the Secretariat because a PL 480 Title I local currency trust fund account had not been established with the U.S. Disbursing Officer in Mexico to finance these expenses; second, the USAID used AID Operating Expense funds to pay for accounting services to the Secretariat because the USAID had an existing contract which they wanted to use to provide urgently needed services to the Secretariat; third, the USAID assigned one of its foreign national contract employees to serve as the Executive Secretary for the Secretariat on a part-time basis because they were unable to find a suitable candidate for the job. As a result, \$10,325 in Program Development and Support funds and \$4,186 in AID Operating Expense funds were incorrectly used to finance expenses of the PL 480 Title I program and the Secretariat did not have the benefit of a full-time Executive Secretary. The report recommends that AID recover from the Ministry of Agriculture the funds it used to pay for the expenses of the Secretariat and contract the services of a full-time Executive Secretary for the Secretariat. USAID/Ecuador agreed with our recommendation and

has also indicated they plan to transfer the authority to contract employees of the Implementation Secretariat to the Ministry of Agriculture.

According to Implementation Letter No. 6, the Ministry of Agriculture was to provide office space and telephone service for the Implementation Secretariat. The Implementation Secretariat was housed in the Office of Agriculture and Rural Development at the USAID building in Quito. The Secretariat was housed in the USAID building because its Executive Secretary was under a personal services contract with the USAID, and by being close to Mission officials, he would be able to attend to the PL 480 Title I program more expeditiously. As a result, the USAID was financing the cost of housing the Secretariat when it should have been financed by the Ministry of Agriculture with local currency funds. The report recommends that the Ministry of Agriculture arrange for the required office space for the Secretariat. USAID/Ecuador agreed with our recommendation and has reportedly amended the program budget to cover the cost of office space.

*Office of the Inspector General*

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PL 480 TITLE I LOCAL CURRENCY GENERATIONS

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AUDIT OF USAID/ECUADOR  
PL 480 TITLE I LOCAL CURRENCY GENERATIONS

PART I - INTRODUCTION

A. Background

On May 17, 1985, the Government of Ecuador (GOE) and the United States of America signed a loan agreement for the sale of agricultural commodities under Title I of U.S. Public Law 480 (PL 480). Under the terms of the agreement, and a Memorandum of Understanding signed on the same date, the U.S. agreed to finance the sale of \$15 million in agricultural commodities to Ecuador. The GOE would, in turn, make available suces (local currency) in an amount equivalent to the U.S. dollar financing provided by the U.S. for these commodities. The local currency would be jointly programmed by the two governments for activities which support the development of the rural and agricultural sectors in Ecuador.

Authority to commit and disburse local currency funds rested with the Ecuadorian Ministers of Finance and Agriculture and the Director of the U.S. Agency for International Development in Ecuador (USAID/Ecuador). To help administer the local currency, two entities were established - an Advisory Council and an Implementation Secretariat. The Advisory Council consisted of representatives of the Ministries of Agriculture and Finance and USAID/Ecuador. The Advisory Council reviewed proposals submitted by public and private Ecuadorian agencies and made recommendations for local currency funding to the Ministers of Agriculture, Finance and the USAID Director. The Advisory Council also monitored the progress of the approved activities and recommended approval of disbursements.

The Implementation Secretariat was established to assist the Advisory Council; it was directly responsible to, and received direction and guidance from, the Advisory Council. Its basic role was to attend to the administrative aspects of programming and monitoring the activities financed with local currency, to maintain records and documentation, and to provide the Advisory Council with the information it needed to carry out its approval and monitoring responsibilities.

The proceeds accruing to the GOE from the sale of commodities financed under the PL 480 Title I agreement were to be used for financing self-help measures for the rural and agricultural sectors which were set forth in the project agreement. These would increase the access of the poor in Ecuador to an adequate, nutritious and stable food supply. Accordingly, 31 activities were financed with local currency generations to achieve the purposes established in the agreement.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa made a financial and compliance audit of USAID/Ecuador's PL 480 Title I local currency generations. The objectives of the audit were to determine the establishment of adequate financial and operational controls to ensure

that funds were used for intended purposes and to determine compliance with AID and program requirements. We did not review end uses of funds nor did we examine the internal controls established by the end-users. The audit covered the period from May 17, 1985 to December 31, 1986 and included local currency generations of \$14.9 million.

In order to accomplish the audit objectives, we reviewed project files and interviewed officials of USAID/Ecuador, the Ministry of Agriculture, the Implementation Secretariat, and the National Development Bank. We visited three of the activities financed with local currency generations. Audit fieldwork was conducted from January 14 to April 1, 1987. The review of internal controls and compliance was limited to the findings in this report. The audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

The financial and operational controls established for the PL 480 Title I program were not fully adequate to ensure that local currency funds were used for intended purposes. Also, compliance with some program requirements was lacking.

The PL 480 Title I Implementation Secretariat was not able to fulfill all of its monitoring responsibilities such as maintaining complete files, verifying the accuracy of financial accounts, making site visits of activities, or reviewing vouchers. An independent audit firm had not been contracted to verify whether funds had been used as intended or whether the requirements and objectives of the activities had been fulfilled. USAID/Ecuador and the Government of Ecuador did not fully comply with program requirements to finance the expenses of the Implementation Secretariat with PL 480 Title I funds and to contract the services of a full-time Executive Secretary. Finally, the Ministry of Agriculture did not provide office space for the Implementation Secretariat as required.

Also, contrary to the provisions of AID Handbook 19, PL 480 Title I local currency generations were initially transferred to USAID/Ecuador under a trust fund agreement and deposited into a local bank account in the name of the USAID/Controller rather than with the U.S. Disbursing Officer, as required by U.S. Treasury regulations. USAID/Ecuador accounting and disbursement controls over the local bank account were very weak. The USAID/Ecuador trust fund account was closed on July 10, 1986 and the remaining funds (which we accounted for) were returned to the GOE. This matter is fully discussed in a separate report entitled Audit of Selected USAID/Ecuador Activities.

This report recommends that: a firm be contracted to provide staff to help the Implementation Secretariat fulfill its monitoring functions; an independent audit firm be contracted to audit the activities of the program; PL 480 Title I funds be used to reimburse personnel costs financed by USAID/Ecuador; the services of a full-time Executive Secretary be contracted; and office space be provided for the Implementation Secretariat by the Ministry of Agriculture. The first recommendation is closed on the date of this report.

## A. Audit Findings and Recommendations

### 1. Implementation Secretariat Had Not Been Able to Fulfill All of its Functions

Implementation Letter No. 6 contained 11 functions to be performed by the Implementation Secretariat (Secretariat); some of these functions were: a) maintain complete and up-to-date files on all proposed activities; b) maintain complete and accurate financial accounts of local currency programming and uses; c) perform on-site verification (physical and financial) of the activities financed with local currency; d) assist in arranging for audits and evaluation of the approved activities. The Secretariat had not adequately performed at least 5 of its 11 functions because it lacked sufficient staff. As a result, there were no assurances that PL 480 Title I local currencies had been used as intended.

#### Recommendation No. 1

We recommend that USAID/Ecuador obtain evidence that the Implementation Secretariat has:

- a) contracted an independent accounting firm to provide it with the financial accounting and control services needed to ensure the proper and efficient use of PL 480 Title I local currency; and
- b) established a follow-up system to track actions taken to implement recommendations resulting from the evaluations of accounting systems and internal controls.

#### Discussion

The PL 480 Sales Agreement and Memorandum of Understanding provided for the establishment of an Implementation Secretariat (Secretariat). Its basic role was to attend to the administrative aspects of programming and monitoring the activities financed with local currency, to maintain records and documentation, and to provide the PL 480 Advisory Council with the information it needed to carry out its monitoring responsibilities.

Implementation Letter No. 6, dated December 30, 1985, established that the Secretariat would perform 11 functions in programming and monitoring activities financed with local currency (see Exhibit 1).

As of January 7, 1987, the Secretariat had not adequately performed at least 5 of its 11 functions because it lacked sufficient staffing. The Secretariat was composed of an Executive Secretary, an Administrative Assistant who had resigned her position on January 9, 1987, and a secretary/clerk. As a result, there were no assurances that PL 480 Title I local currencies had been used as intended.

Attachment 1 to Implementation Letter No. 6 stated: "During the first year of operation of the Secretariat, consideration will be given to retaining the services of a public accounting firm to perform certain functions such as financial accounting, control, verification, and reporting". At the time of our audit, the USAID was negotiating this contract with a local accounting firm. The signing of such a contract would enhance the ability of the Secretariat to perform all of the functions required to administer the programming and monitoring of the activities financed with local currency funds.

The five functions not adequately performed by the Secretariat were: -

- Maintain complete and up-to-date files on all proposed activities.
- Maintain complete and accurate financial accounts of local currency programming and uses.
- Perform on-site verification (physical and financial) of the activities financed with local currency.
- Assist in arranging for audits and evaluations of the approved activities, as directed by the Advisory Council.
- Assist private sector institutions, as needed, to develop adequate financial accounting and control systems for managing the local currency, and certify the adequacy of these systems as a basis for making local currency available to the institutions.

Complete and Up-To-Date Files - Our review determined that only 11 of the 30 activities funded with local currency had complied with quarterly reporting requirements. Also, the activity file on the Coffee Rust Control Project (FENACAFE) did not contain all the information submitted by FENACAFE to the USAID Technical Advisor in Guayaquil.

Accurate Financial Accounts - Even though the financial accounts of program activities were complete, they were not always accurate. For example, the actual disbursements for three of the activities shown on the Activity Status Report of December 1986 were not correct. These activities were Rural Technology Transfer System Support, Rural Potable Water Supply, and the Sheep Improvement Development Program.

Site Visit Reports - The Secretariat was not able to perform adequate on-site verification of the activities financed with local currency. Site visit reports were found for only three of the 30 activities. According to the Executive Secretary, more site visits could not be made due to the lack of staff.

Audit Coverage - The Secretariat had not been able to provide audit coverage of approved activities. Supporting documentation for local currency uses had not been verified.

Follow-up System for Implementing Recommendations - The Secretariat was to assist private sector institutions to develop adequate accounting and internal control systems for managing the local currency available to them. The Secretariat contracted an accounting firm to evaluate accounting and control systems. The firm evaluated 11 activities and made 82 recommendations to improve their systems. The Secretariat did not follow-up to ensure that recommendations were implemented. Therefore, there was no assurance that adequate accounting systems and internal controls were in place to assure the proper management of PL 480 Title I funds. We believe the Secretariat should establish a tracking system to monitor the implementation of recommendations made to improve accounting and control systems.

Management Comments

On April 6, 1987 USAID/Ecuador signed a contract with an independent accounting firm to provide the Implementation Secretariat with financial accounting and control services, as well as to follow up on actions taken to implement recommendations resulting from the prior evaluations of accounting systems and internal controls.

Office of Inspector General Comments

Recommendation number 1 is closed on the date of this report.

## 2. No Audits of PL 480 Title I Activities Had Been Made

The PL 480 Title I Loan Agreement required that the local currency funds provided under the program would be subject to audit by an independent firm. As of December 31, 1986, no audits had been made of approximately \$6.4 million in local currency disbursed to 31 PL 480 Title I funded activities. The Executive Secretary of the Implementation Secretariat attributed the lack of audit coverage to the fact that an auditing firm had not been contracted. As a result, there was no assurance whether \$6.4 million in local currency funds had been used as intended or whether the requirements and objectives of the activities had been fulfilled.

### Recommendation No. 2

We recommend that USAID/Ecuador ensure that an independent auditing firm is contracted to conduct audits of PL 480 Title I local currency activities in order of chronological priority.

### Discussion

Attachment II to the PL 480 Title I Loan Agreement, dated May 17, 1985, stated that "...all administration and use of the local currency funds provided under this activity will be subject to audit by an independent firm."

The 31 activities funded under the PL 480 Title I Program had received approximately \$6.4 million <sup>1/</sup> in local currency funds; however, no audits of the activities had been made. Thus, there was no assurance that funds disbursed to these activities were used as intended or whether the requirements and objectives of the activities had been fulfilled. According to Mission Officials, no audits had been performed because a contract had not been negotiated with an auditing firm.

At the time of our audit, the USAID was negotiating a contract with an independent accounting firm; however, the objective of that contract was not to conduct audits of activities funded with local currency. In this contract, the accounting firm was to provide the Implementation Secretariat with financial accounting and internal control services that would help ensure the proper and efficient use of the local currency and to assist the Secretariat in monitoring its use.

The Mission believes, and we agree, that the 31 PL 480 Title I activities should be audited by an auditing firm contracted and supervised by the Controller General of Ecuador. The contract should be funded with PL 480 Title I funds and the USAID should approve the schedule of audits and the audit scope.

As of April 3, 1987, 31 PL 480 Title I activities had been started. Five of these activities had already reached their estimated completion dates (ECD) and 11 activities will reach their ECDs in 2 to 10 months. Fifteen

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<sup>1/</sup> Conversion Rate: S/95 = \$1.00

activities were between 13 and 24 months of their ECDs, and the ECD of the remaining activity could not be determined. Because of the large number of activities that had reached or were fast approaching their ECDs and the amount of local currency already disbursed (\$6.4 million), we believe that the audits of these activities should be initiated as quickly as possible.

USAID/Ecuador stated that they had reached an agreement in principle with the Minister of Agriculture to contract for audits of program activities in consultation with the Controller General of Ecuador.

Management Comments

USAID/Ecuador agreed with this finding and recommendation.

Office of Inspector General Comments

USAID/Ecuador's concurrence with and actions on this finding resolves the recommendation which will be closed upon completion of the actions underway.

3. USAID/Ecuador Did Not Fully Comply With Program Requirements in Contracting Personnel for the Implementation Secretariat

According to the PL 480 Title I Memorandum of Understanding dated May 17, 1985, the expenses of the Implementation Secretariat (Secretariat) were to be financed from local currency proceeds and the USAID was authorized to contract employees for the Secretariat. USAID/Ecuador did not fully comply with these requirements in contracting personnel for the Secretariat for the following three reasons: first, the USAID used Program Development and Support funds (PD&S) to pay for some of the salaries of the Secretariat because a PL 480 Title I local currency trust fund account had not yet been established with the U.S. Disbursing Officer in Mexico to finance these expenses; second, the USAID used AID Operating Expense funds (OE) to pay for accounting services to the Secretariat because the USAID had an existing contract which they wanted to use to provide urgently needed services to the Secretariat; third, the USAID assigned one of its foreign national contract employee to serve as the Executive Secretary for the Secretariat on a part-time basis because they were unable to find a suitable candidate for the job. As a result, \$10,325 in PD&S funds and \$4,186 in OE funds were inappropriately used to finance expenses of the PL 480 Title I program and the Secretariat was without the benefit of a full-time Executive Secretary.

Recommendation No. 3

We recommend that USAID/Ecuador:

- a) contract for the services of a full-time Executive Secretary for the Implementation Secretariat and finance all expenses of the Implementation Secretariat with PL 480 Title I local currency generations;
- b) recover from the Ministry of Agriculture the salaries that were inappropriately paid with Program Development and Support funds and return the funds recovered to the U.S. Treasury; and
- c) recover from the Ministry of Agriculture the amounts for contract services that were incorrectly paid for with AID Operating Expense funds and return the funds recovered to the U.S. Treasury.

Discussion

The PL 480 Title I Memorandum of Understanding, dated May 17, 1985, specified that:

To assist the Advisory Council to carry out its functions, the Implementation Secretariat will be established. Financing for the Secretariat will be provided from local currency proceeds. The Secretariat will consist of professionals and secretaries to be contracted by A.I.D.

USAID/Ecuador did not fully comply with these requirements because they used Program Development and Support and AID Operating Expense funds to pay for personnel costs; also they only contracted a part-time employee to serve as the Executive Secretary of the Secretariat.

Program Development and Support Funds - The Secretariat was composed of an Executive Secretary, an Administrative Assistant, and a Clerk/Secretary. The USAID used \$10,325 in Program Development and Support funds (PD&S) to pay some of the salaries of these employees instead of PL 480 Title I funds as intended.

From March 1986 to June 1986, the Administrative Assistant and the Clerk/Secretary were paid from PL 480 Title I local currency funds deposited in an irregular Trust Fund account opened in the name of the USAID Controller at a local bank (La Previsora). In July 1986 the USAID Trust account with La Previsora Bank was closed and the funds were transferred to a Government of Ecuador account at the National Development Bank. Since the USAID had not established a new trust account with the U.S. Disbursing Officer in Mexico until November 1986, the USAID funded the salaries of these two employees with \$7,613 in AID PD&S funds from June to November 1986 (see Exhibit 2).

The USAID originally assigned one of its foreign national contract employees to serve as the Executive Secretary on a part-time basis. His contract was funded with PD&S funds. On July 30, 1986 a new contract was signed with this employee and again funded with PD&S funds. The new contract specifically indicated that one of his functions was to serve as the Executive Secretary for the PL 480 Title I Program. However, none of his salary was ever paid with PL 480 Title I funds as required. According to the Chief of the USAID's Office of Agriculture and Rural Development, the USAID contract employee only spent 50 percent of his time on the functions of the Secretariat because he had other functions to perform for the USAID under his contract. As of January 12, 1987, a total of \$5,423 in PD&S funds had been paid to the USAID contract employee (see Exhibit 2). Since the USAID contract employee devoted 50 percent of his time to the functions of the Secretariat, (an activity that was to be funded with local currency funds) \$2,712 (50 percent of \$5,423) should be collected from the Ministry of Agriculture by the USAID as the Ministry's share for the services provided to the Secretariat by the USAID contract employee.

As of January 12, 1987, the USAID contract employee was still receiving salary payments financed with PD&S funds. However, the other two employees of the Secretariat signed one-year contracts with the USAID from November 1, 1986 to October 31, 1987 financed with local currency funds from the PL 480 Title I Trust Fund Account established in November 1986 with the U.S. Disbursing Officer in Mexico.

As a result, approximately \$10,325 in PD&S funds (instead of PL 480 Title I local currency funds) were used to finance the salaries of the Implementation Secretariat. We believe the USAID should bill the

Ministry of Agriculture for the PD&S funds incorrectly used to finance salaries of the PL 480 Title I program and return these funds to the U.S. Treasury.

Operating Expense Funds - Attachment I to Implementation Letter No. 6, dated December 30, 1985, provided that the Implementation Secretariat (Secretariat) would hire an accounting firm to evaluate the accounting systems of the implementing agencies. The PL 480 Title I Memorandum of Understanding dated May 17, 1985 specified that the expenses of the Secretariat would be financed with local currency proceeds.

On March 20, 1986 USAID/Ecuador contracted with the accounting firm of Stern, Naranjo and Company for \$4,947 under Contract No. 518-U000-6-00-3129-00 (Work Order No. 6) to evaluate the accounting systems of 13 implementing agencies receiving PL 480 Title I local currencies. Work Order No. 6 was funded with AID Operating Expense funds. This contract was not financed with PL 480 Title I local currency funds because the USAID used its existing contract with Stern, Naranjo and Company to quickly provide urgently needed services to the Secretariat. Since these services should have been financed with PL 480 Title I local currency, USAID/Ecuador should recover \$4,186 from the Ministry of Agriculture and return the funds to the U.S. Treasury.

Position of the Executive Secretary - The USAID originally assigned one of its foreign national contract employees to serve as the Executive Secretary for the Implementation Secretariat because they were unable to find a suitable candidate to fill this job. Since this employee had other functions to perform under his contract with the USAID, he was only able to devote about 50 percent of his time to the functions of Executive Secretary. As a result, the Secretariat did not have the benefit of a full-time Executive Secretary.

Conclusion - USAID/Ecuador used Program Development and Support and AID Operating Expense funds to pay for the expenses of the Secretariat and only provided the services of a part-time employee to serve as the Executive Secretary of the Secretariat. To correct these problems we believe that the USAID should recover from the Ministry of Agriculture the AID funds incorrectly used to pay for expenses of the PL 480 Title I program and contract for the services of a full-time Executive Secretary for the Implementation Secretariat.

#### Management Comments

According to USAID/Ecuador, they and the Ministry of Agriculture agreed with our recommendations. USAID/Ecuador also stated they plan to transfer the authority to contract employees for the Implementation Secretariat to the Ministry of Agriculture.

#### Office of Inspector General Comments

USAID/Ecuador's plan of action resolves this recommendation. It can be closed upon satisfactory completion of this action.

#### 4. Office Space Was Not Provided to the Implementation Secretariat As Required

According to Implementation Letter No. 6, the Ministry of Agriculture was to provide office space and telephone service for the Implementation Secretariat. The Secretariat was housed in the Office of Agriculture and Rural Development at the USAID building in Quito. The primary reason for the Secretariat being housed in the USAID building was that its Executive Secretary was under a personal services contract with the USAID, and by being close to Mission officials, he would be able to attend to the PL 480 Title I program more expeditiously. As a result, the USAID was financing the cost of housing the Secretariat when it should have been financed by the Ministry of Agriculture with local currency funds.

#### Recommendation No. 4

We recommend that USAID/Ecuador ensure that the Ministry of Agriculture arranges for office space for the Implementation Secretariat.

#### Discussion

Implementation Letter No. 6 specified that: "The Ministry of Agriculture will provide office space and a functioning telephone for the Secretariat in the Ministry's Quito building". However, the Secretariat was being housed in the USAID building because the personal services contractor placed in the position of the Executive Secretary had other functions to perform under his contract that required him to be close to the USAID's Office of Agriculture and Rural Development. Because a suitable candidate could not be found to fill the position of the Executive Secretary, a foreign national employee working under contract with the USAID was placed in that position. Because the same person was functioning as a contractor within the USAID and as Executive Secretary for the PL 480 Title I Implementation Secretariat, it appeared that this contractor was working for both the USAID and the Ministry of Agriculture. Non-compliance with Implementation Letter No. 6 resulted in increased administrative expenses for the USAID for an activity that should have been financed with local currency funds.

#### Management Comments

USAID/Ecuador concurred with the finding and stated that a line item for rental of office space had been included in the new budget for the Secretariat in case the Ministry does not have available space.

#### Office of Inspector General Comments

USAID/Ecuador's plan of action resolves this recommendation. It can be closed upon satisfactory completion of this action.

## B. Compliance and Internal Controls

### 1. Compliance

The audit disclosed five compliance exceptions. First, several functions of the Implementation Secretariat were not adequately carried-out as required by Implementation Letter No. 6. Second, local currency funds provided under the program were not audited as required by the Loan Agreement. Third, some costs of the Implementation Secretariat were not funded with local currency proceeds as required by Memorandum of Understanding. Fourth, the Implementation Secretariat was not housed at the Ministry of Agriculture as required by Implementation Letter No. 6. Fifth, USAID/Ecuador established a trust fund for local currency funds contrary to AID Handbook 19 (see separate report entitled Audit of Selected USAID/Ecuador Activities). The review of compliance was limited to the issues mentioned above.

### 2. Internal Controls

Two internal control exceptions were found during the audit. First, the Implementation Secretariat had not established adequate controls to ensure that funds were used for intended purposes. Second, USAID/Ecuador had not established adequate internal controls over the management of its local currency trust fund (see separate audit report entitled Audit of Selected USAID/Ecuador Activities). The review of internal controls was limited to the problems reported above.

AUDIT OF USAID/ECUADOR  
PL 480 TITLE I LOCAL CURRENCY GENERATIONS

PART III - EXHIBITS AND APPENDICES

SPECIFIC FUNCTIONS OF THE IMPLEMENTATION SECRETARIAT

1. Screen initial funding proposals to ensure consistency with general programming criteria and completeness of documentation.
2. Assist private sector institutions to develop, draft, and revise proposals, as needed.
3. Ensure that proposals and other documents are delivered to and flow through the appropriate entities for approvals and other actions.
4. Maintain complete and up-to-date files on all proposed activities.
5. Draft documentation for day-to-day programming and administration of the local currency.
6. Maintain complete and accurate financial accounts of local currency programming and uses.
7. Perform on-site verification (physical and financial) of the activities financed with local currency.
8. Assist private sector institutions, as needed, to develop adequate financial accounting and control systems for managing the local currency, and certify the adequacy of those systems as a basis for making local currency available to the institutions.
9. Prepare for the Advisory Council comprehensive quarterly progress reports which incorporate the reports received from each implementing agency. Prepare other reports as requested by the Advisory Council or other authorized parties.
10. Assist in arranging for audits and evaluations of the approved activities, as directed by the Advisory Council.
11. Maintain continual liaison with the Advisory Council and bring to its attention matters which may require corrective action.

IMPLEMENTATION SECRETARIAT SALARIES  
PAID FROM PD&S FUNDS

<u>Position</u>	<u>Date Salary Paid</u>	<u>Amount</u>
<u>Executive Secretary</u>	08/07/86	\$ 619
	08/26/86	310
	09/15/86	468
	09/18/86	337
	10/03/86	443
	10/17/86	433
	10/28/86	360
	11/21/86	360
	11/25/86	360
	12/23/86	353
	12/15/86	1,027
	01/12/87	353
		<u>\$5,423</u>
<u>Administrative Assistant</u>	07/17/86	\$ 324
	07/21/86	603
	08/04/86	490
	09/02/86	852
	09/05/86	930
	09/19/86	852
	10/03/86	852
	10/20/86	620
	10/22/86	119
	11/04/86	698
	<u>\$6,340</u>	
<u>Clerk/Secretary</u>	06/27/86	\$ 139
	07/16/86	139
	08/07/86	139
	08/22/86	139
	09/04/86	138
	09/16/86	138
	10/03/86	147
	10/20/86	118
	10/31/86	176
	<u>\$1,273</u>	
<b>Total Paid to Three Employees</b>		<b>\$13,036</b> =====

LIST OF REPORT RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	
We recommend that USAID/Ecuador obtain evidence that the Implementation Secretariat has:	
a) contracted an independent accounting firm to provide it with the financial accounting and control services needed to ensure the proper and efficient use of PL 480 Title I local currency; and	
b) established a follow-up system to track actions taken to implement recommendations resulting from the evaluations of accounting systems and internal controls.	4
<u>Recommendation No. 2</u>	
We recommend that USAID/Ecuador ensure that an independent auditing firm is contracted to conduct audits of PL 480 Title I local currency activities in order of chronological priority.	
<u>Recommendation No. 3</u>	
We recommend that USAID/Ecuador:	
a) contract for the services of a full-time Executive Secretary for the Implementation Secretariat and finance all expenses of the Implementation Secretariat with PL 480 Title I local currency generations;	
b) recover from the Ministry of Agriculture the salaries that were inappropriately paid with Program Development and Support funds and return the funds recovered to the U.S. Treasury; and	
c) recover from the Ministry of Agriculture the amounts for contract services that were incorrectly paid for with AID Operating Expense funds and return the funds recovered to the U.S. Treasury.	9
<u>Recommendation No. 4</u>	
We recommend that USAID/Ecuador ensure that the Ministry of Agriculture arranges for office space for the Implementation Secretariat.	12

UNITED STATES GOVERNMENT

# memorandum

DATE: July 15, 1987

REPLY TO  
ATTN OF: *Frank Almaguer*  
Frank Almaguer, Director

O/CONT-87-323

SUBJECT: Draft Audit Report of USAID/Ecuador PL-480 Title I Local  
Currency Generations

TO: Mr. Coinage Gothard, LAC/RIG/A

The Mission has reviewed the subject draft audit report and has the following comments, observations, and recommendations for changes:

1. Page iv (third sentence)

We request that the sentence be changed to read: "As a result, Program Development and Support Funds and Operating Expenses Funds were incorrectly used to finance expenses of the PL-480 Title I Program and the Secretariat did not have the benefit of a full-time Executive Secretary."

We believe the amount should be left out since it is not accurate and we will charge the PL-480 program for all of the PD&S costs and OE costs when the present Mission personnel are reassigned full-time duties not related to the PL-480 Secretariat.

2. Page v (fifth sentence)

We request that this sentence be changed to read: "We recommend that the Ministry of Agriculture arrange for the required office space for the Secretariat." The reason for the requested change is to allow for more flexibility on the part of the Ministry. It may be necessary for the office space to be located away from the Ministry in either leased space, or possibly at the National Development Bank.

3. Page 4 (second paragraph, third sentence)

We request that the sentence be changed to read: "USAID/Ecuador and the GOE did not..."

4. We request that recommendation No. 1 be deleted and the following language inserted: "The Mission has contracted with an independent accounting firm to provide the Program with the financial accounting and control services needed to ensure proper and efficient use of PL-480 local currencies, and to provide a follow-up system to track actions to implement recommendations resulting from the

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10

evaluations of accounting systems and internal controls." A copy of the contract is attached to this memo.

5. (Accurate Financial Accounts, Page 9)

We have questions related to the finding, but have been unable to reach the field auditor, despite numerous phone calls, to clarify the points in the draft report. Please contact the Mission prior to finalizing the report.

6. Page 10 (last paragraph)

We request that the paragraph be changed to read: "USAID management had taken action on this matter, and on April 6, 1987 signed a contract with an independent accounting firm to provide the Implementation Secretariat with financial accounting and control services, as well as follow up on actions taken to implement recommendations resulting from the prior evaluations of accounting systems and internal controls."

7. Page 12 (third paragraph)

We request that the first sentence be changed to read: "The Mission believes..."

8. Page 12

The last paragraph should be changed to read: "As of April 3, 1987, 31 PL-480 Title I activities had been started. Five of these activities had already reached their estimated completion dates (ECD) and 11 activities will reach their ECDs in 2 to 10 months. Fifteen activities were within 13 to 24 months of their ECDs..." A list of activities is enclosed with this memorandum.

9. Page 13 (last paragraph)

We request that the last sentence be changed to read: "USAID/Ecuador stated that they have reached an agreement in principle with the Minister of Agriculture to contract for audits of PL-480 program activities in consultation with the Controller General of Ecuador."

10. Page 14 (first paragraph, last sentence)

We request that the dollar figures used in this sentence be deleted for the same reasons discussed in our comment No. 1 above.

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11. Page 15 (Recommendation No. 3)

Again, we request that the dollar amounts related to the finding be deleted for the same reasons discussed in our comment No. 1 above.

12. Page 16 and 17

Please delete dollar amounts related to the finding as requested earlier in our memorandum and for the same reasons.

13. Page 20 (Recommendation No. 4)

We request that the recommendation be changed to conform to the language change request in our comment No. 2, above, and for the same reasons.

Also enclosed for your reference is a status report of all actions related to the audit findings and recommendations under the subject audit.

Att.: a/s

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OFFICE OF INSPECTOR GENERAL RESPONSE  
TO MANAGEMENT COMMENTS

Note: The paragraph numbers below correspond to those used in USAID/Ecuador's comments.

1. Since the Mission did not indicate how our figures were inaccurate or provide correct figures, we have left the amounts unchanged throughout the report.
2. We have changed the report as requested.
3. We have changed the report as requested.
4. Recommendation No. 1 is closed on the date of this report, as a result of the action reported by the Mission.
5. We contacted the Mission prior to finalizing the report.
6. We have changed the report as requested.
7. We have changed the report as requested.
8. We have changed the report as requested.
9. We have changed the report as requested.
10. See response number 1.
11. We have modified the recommendation as suggested.
12. See response number 1.
13. We have changed the report as requested.

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