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AUDIT OF USAID/GUATEMALA PUBLIC LAW 480 TITLE I PROGRAM

Audit Report No. 1-520-88-09
January 22, 1988

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OFFICE OF THE REGIONAL INSPECTOR GENERAL
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January 22, 1988

MEMORANDUM

TO: D/USAID/Guatemala, Anthony J. Cauterucci

FROM: RIG/A/T, Coinage N. Gothard, Jr. Coinage N. Gothard

SUBJECT: Audit of USAID/Guatemala Public Law 480 Title I Program

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of the USAID/Guatemala Public Law 480 Title I program. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to your for comment and your comments are attached as Appendix 1 to the report. The report contains four recommendations. Recommendation No. 2(b) and 4(b) are considered closed and do not require further action. Recommendations Nos. 1, 2(a)(c), 3, and 4(a),(c),(d)(e) can not be closed until we are in receipt of documentation of the Mission's actions. Please advise me within 30 days of any additional actions and the required documentation to close these recommendations.

I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

The Agriculture Trade Development and Assistance Act of 1954, referred to as the Public Law 480 program, stated three primary objectives of the International Food Assistance Program, 1) to promote agricultural trade, 2) to provide humanitarian relief, and 3) to assist developing countries to advance economically. Responsibility for accomplishing these objectives was shared by various agencies including A.I.D., the Departments of Agriculture, State and Treasury and the Office of Management and Budget, all of which were represented on the Development Coordinating Committee, Food Assistance Subcommittee. Executive Order No. 12220, dated June 27, 1980, revised the delegations of authority to the International Development Cooperation Agency (which may be redelegated to the head of any other executive agency) to negotiate and enter into agreements with friendly countries for the sales of agriculture commodities. The Agency for International Development was delegated primary responsibility for the administration of the Public Law 480 program.

The program consists of concessional sales of agricultural commodities such as grains, vegetable oil, etc. from the United States to recipient countries on favorable credit terms. Recipient governments sell these commodities to the private sector and, in some cases, directly to the public. In Guatemala approximately $40 million in sales proceeds had been generated for self-help initiatives for the period 1984-1986. The $18 million fiscal year 1987 sales agreement was signed in May 1987 for the importation of agricultural commodities.

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a program results audits of Guatemala's Public Law 480 Title I program during the period May 18, 1987 to August 28, 1987. This audit was selected because of Congressional interest in local currency uses. Our objectives were to determine if local currencies were generated in accordance with the respective sales agreements and whether the local currencies were effectively used toward self-help initiatives.

The audit disclosed that sales of commodities under the Public Law 480 Title I Program in Guatemala had not generated local currencies in compliance with the governing agreements and the local currencies had not been effectively used toward achieving self-help objectives.

Over a period of several years prior to our audit, the Embassy and the Agricultural Attache had asserted increasing influence over the PL 480 Title I program in Guatemala. This caused the Mission to withdraw from its normally deep involvement in the program and relegated it to one seat on a committee established to oversee Title I matters, especially programming the uses of commodity sales proceeds. In April 1987, USAID/Guatemala issued a Mission Order providing its staff with specific guidance on programming and monitoring local currencies, including Title I sales proceeds. However, the Mission had been slow to put this guidance into effect. In any event, the committee did not assume responsibility for monitoring the use of the sales proceeds for designated self-help activities which was always USAID/Guatemala's responsibility.

This report contains two findings. The Public Law 480 Title I program was not adequately managed to ensure compliance with the sales agreements and sales proceeds were not effectively utilized to achieve self-help objectives.

The Public Law 480 Title I program in Guatemala was not being implemented in accordance with relevant sales agreements and A.I.D. regulations. Some imported commodities were not being sold and proceeds from commodity sales which were to be used for self-help initiatives were not being deposited at the highest lawful exchange rates. These problems occurred because the country team committee approach used to manage the program was ineffective in ensuring the program was implemented as required. As a result, approximately $8 million was not made available for U.S. Embassy operations and self-help initiatives. The report recommended improvements in program management. Mission officials did not concur with the finding and stated that program was effectively managed. Since the response did not provide documentation to refute our findings, the recommendations will remain open, with the exception of the portion pertaining Currency Use Payment which was closed.

Also, the Act of 1954 and operating instructions required that funds from the sales of commodities be programmed for self-help activities to improve the living conditions and increase agricultural production of the rural poor. USAID/Guatemala had not taken actions to: develop self-help activities with specific measurable indicators; ensure that funds were used in a timely manner; or use funds for the purposes as originally programmed. The achievement of these objectives was hindered because of ineffective management over the programming and monitoring of sales proceeds. USAID/Guatemala was not able to identify the extent the rural poor benefited from the Public Law 480 Title I Program and ineffectively managed approximately $9 million in sales proceeds for self-help initiatives. A recommendation was made to ensure that the Government of Guatemala implements the self-help initiatives agreed to in the respective sales agreements. Mission officials generally agreed with the findings and recommendations and, based on the Mission's submission of documentation of actions taken, these will be closed. The Mission Director's response to the draft report conflicted with an earlier written response regarding the committee approach to Public Law 480 Title I administration in Guatemala. We are not in agreement with the draft report response and address this issue on page 5. Also the texts of the Mission Director's responses are included as Appendices 1 and 2.

Office of the Inspector General

AUDIT OF
USAID/GUATEMALA
PUBLIC LAW 480 TITLE I PROGRAM

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AUDIT OF
USAID/GUATEMALA
PUBLIC LAW 480 TITLE I PROGRAM

PART I - INTRODUCTION

A. Background

The Agriculture Trade Development and Assistance Act of 1954, referred to as the Public Law (PL) 480 program, stated three primary objectives of the International Food Assistance Program, 1) to promote agricultural trade, 2) to provide humanitarian relief, and 3) to assist developing countries to advance economically. Responsibility for accomplishing these objectives was shared by various agencies including A.I.D., the Departments of Agriculture, State and Treasury and the Office of Management and Budget, all of which were represented on the Food Assistance Subcommittee of the Development Coordinating Committee. Executive Order No. 12220, dated June 27, 1980, revised the delegations of authority to the International Development Cooperation Agency (which may be redelegated to the head of any other executive agency) to negotiate and enter into agreements with friendly countries for the sales of agriculture commodities. The Agency for International Development was delegated primary responsibility for the administration of the Public Law 480 program.

The PL 480 program consists of concessional sales of agricultural commodities such as grains, vegetable oil, etc. from the United States to recipient countries on favorable credit terms. Recipient governments sell these commodities to the private sector and, in some cases, directly to the public. As a result of worldwide food shortages and lagging economic progress in developing countries, the Act was amended in 1966 to strengthen the humanitarian and development objectives and required the recipient governments to establish a program of self-help initiatives to improve the agricultural production, health and education of the rural poor using the local currency proceeds from PL 480 sales.

Guatemala had experienced a drastic economic downturn from a 7.8 percent growth rate in 1977 to negative growth in 1982. To assist the Government of Guatemala in reversing the economic decline, USAID/Guatemala established a strategy to support its balance of payments and long-term development objectives using, among other resources, the Public Law 480 Title I Program. For the period 1984-1986, Guatemala imported approximately 95,000 metric tons of vegetable oil, tallow and wheat generating approximately $40 million in sales proceeds to be used for self-help initiatives.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a program results audit of Guatemala's Public Law 480 Title I program during the period May 18, 1987 to August 28, 1987. This audit was selected because of Congressional interest in local currency uses.

Our objectives were to determine if local currencies were generated in accordance with the respective sales agreements and whether the local currencies were effectively used toward self-help initiatives.

To accomplish the objectives, audit fieldwork included reviews of pertinent files, records and reports; interviews with officials and staff at USAID/Guatemala, the U.S. Department of Agriculture, the U.S. Embassy, the Government of Guatemala Ministries of Finance and Economy, various implementing agencies, the Bank of Guatemala and with importers; and a site visit to port facilities. The audit covered $38,806,508 in deposits of sales proceeds and approximately $11 million in disbursements for self-help projects covering the sales agreements for fiscal years 1981 to 1986. The extent of internal controls reviewed were limited to the issues in this report. The audit was made in accordance with generally accepted government auditing standards.

PART II - RESULTS OF AUDIT

The audit disclosed that sales of commodities under the Public Law 480 Title I Program in Guatemala had not generated local currencies in compliance with the governing agreements. Moreover, the local currencies had not been effectively used toward achieving self-help objectives.

Over a period of several years prior to our audit, the Embassy and the Agricultural Attache had asserted increasing influence over the PL 480 Title I program in Guatemala. This caused the Mission to withdraw from its normally deep involvement in the program and relegated it to one seat on a committee established to oversee Title I matters, especially programming the uses of commodity sales proceeds. In April 1987, USAID/Guatemala issued a Mission Order providing its staff with specific guidance on programming and monitoring local currencies, including Title I sales proceeds. However, the Mission had been slow to put this guidance into effect. In any event, the committee did not assume responsibility for monitoring the use of the sales proceeds for designated self-help activities which was always USAID/Guatemala's responsibility.

This report contains two findings. The Public Law 480 Title I program was not adequately managed to ensure compliance with the sales agreements and sales proceeds were not effectively utilized to achieve self-help objectives.

The report recommends that USAID/Guatemala institute improved procedures for monitoring the PL 480 program, and changes in the rate used for currency conversions, and deposits and uses of PL 480 funds.

USAID/Guatemala provided written comments to the draft audit report. Appropriate comments were included after each finding and the text is attached as Appendix I except for portions pertaining to matters which were deleted from the report upon presentation of additional evidence. Mission officials did not agree with the recommendation related to finding number one, but generally agreed with the recommendations on finding number two. Further, officials took exception to our conclusions on the country team approach to implementing the Public Law 480 Title I program in Guatemala.

Before the draft report was issued, the findings and recommendations were presented to Mission officials and discussed at an exit conference. At that time, Mission officials agreed that the committee approach to program implementation was less than ideal. In his response dated October 13, 1987 to the preliminary audit findings the Mission Director stated that program responsibilities were complicated by the committee approach and went on to say that it was not the normal system used to manage Title I programs. The Mission Director also explained that when the country team attempted to formalize management responsibilities, differences arose between USAID and the Agricultural Attache, resulting in inconsistencies in policies, certain responsibilities not covered by team members and official files being located in various offices. At the Mission Director's request and as RIG/A/T policy, these comments were included verbatim in the report to put into proper context the situation within which the Mission was working.

However, the Mission Director's response dated December 17, 1987 to the draft audit report criticizes the audit report because, in his view, "the audit report seems to disparage the committee approach to management of the PL 480 Title I program." Further, he concludes that "conflicts did not cause ineffective management and the loss of local currency for development programs," nor was there evidence of USAID's withdrawal from involvement as stated in the draft report. We are somewhat nonplussed at the Director's inconsistency, but in any event disagree with the Mission's response to the draft audit report, and have responded to individual issues at the end of each finding.

A. Findings and Recommendations

1. The Public Law 480 Title I Program Was Ineffectively Managed

The Public Law 480 Title I program in Guatemala was not being implemented in accordance with relevant sales agreements and A.I.D. regulations. Some imported commodities were not being sold and proceeds from commodity sales which were to be used for self-help initiatives were not being deposited at the highest lawful exchange rates. These problems occurred because the country team committee approach used to manage the program was ineffective in ensuring the program was implemented as required. As a result, approximately $8 million was not made available for U.S. Embassy operations and self-help initiatives.

Recommendation No. 1

We recommend that USAID/Guatemala provide evidence that management responsibilities have been defined in accordance with existing A.I.D. Handbook guidance, especially with respect to deposits of sales proceeds, for all agencies involved in the implementation of the Public Law 480 Title I Program.

Recommendation No. 2

We recommend that USAID/Guatemala obtain evidence that actions have been taken to ensure that:

a. Funds representing the sales of corn from the 1986 sales agreement have been deposited in the appropriate account for programming purposes and that the currency use payment for 1986 has been deposited in the local U.S. Disbursing Officer account;

b. the currency use payments for fiscal years 1984, 1985 and 1986 have been recomputed at the highest rate not unlawful on the respective dates of payment, and any amounts owed by the Government of Guatemala have been deposited to the account of the United States Embassy; and

c. the commodity sales for tallow and edible vegetable oils imported under the 1985 program were in fact sold at the one quetzal to one dollar exchange rate. If sales were made in excess of this rate, the Government of Guatemala should deposit the resulting excess proceeds in the appropriate account.

Recommendation No. 3

We recommend that USAID/Guatemala ensure that future Public Law 480 Title I sales agreements include a requirement that sales proceeds be deposited within a specified period of time, preferably within 90 days after delivery of the commodities.

Discussion

The Public Law 480 Title I program was administered through negotiated sales agreements with the Government of Guatemala by a country team committee consisting of representatives from USAID/Guatemala, the Department of Agriculture and the U.S. Embassy. Each year negotiating instructions are issued by an inter-agency Development Coordinating Committee in Washington, D.C. regarding the specific terms that should be included in the sales agreements. The instructions cabled from Washington, D.C. and internal guidance from A.I.D. and the Department of Agriculture provided the agencies with operating procedures to implement the program.

A.I.D. Handbook 9 and Policy Determination No. 5 provided USAID/Guatemala with specific responsibilities in PL 480 administration; however, only limited steps had been taken to provide program oversight. USAID/Guatemala's role in PL 480 administration was limited to programming deposits of sales proceeds for self-help projects and obtaining the committee's approval for those projects. Due to the extensive involvement asserted by the U.S. Embassy and Department of Agriculture personnel, USAID/Guatemala had not exercised management responsibilities over the program as required by A.I.D. policy.

Formal program responsibilities and delegations of authority to oversee the PL 480 Title I program were not defined within the committee or among the United States Government (USG) agencies. The Office of the Agriculture Attache, in correspondence to the Deputy Chief of Mission, stated that when an Agricultural Attache is attached to an Embassy, it becomes the primary office and chairs the PL 480 committee when established by the Ambassador. There were disagreements on program administration and responsibilities for the program between USAID/Guatemala and the Agriculture Attache. The Agricultural Attache in subsequent correspondence requested a legal opinion on the possibility of the Department of Agriculture assuming program responsibility over Public Law 480 Title I funds. These conflicts among USG agencies hindered effective program implementation, management oversight of the Government of Guatemala's (GOG) deposits of sales proceeds, and GOG compliance with the terms of the sales agreement.

The audit disclosed that no agency or individual was assigned responsibility or took the initiative to ensure management oversight of the Government's deposits of commodity sales proceeds. USAID/Guatemala had not exercised management control over program implementation, monitoring and evaluation as required in A.I.D. Handbooks, the policy determination on PL 480 programming, and other guidance. USAID/Guatemala had not required the GOG to make timely deposits of sales proceeds, to make the required Currency Use Payment in a timely manner and at the highest lawful exchange rate; to make deposits of sales proceeds at the highest lawful exchange rate; or to urge that sales proceeds be deposited in interest-bearing accounts, in accordance with AID policy. We estimated that these management inefficiencies resulted in approximately

$10 million in local currency equivalents not being made available for self-help activities. The findings presented below describe the results of ineffective management over the deposits of sales proceeds.

Public Law 480 Title I Commodities Were Withheld From Sales - Grain commodities imported into Guatemala such as rice, beans, corn, etc. were by GOG law to be sold by the Instituto Nacional de Comercializacion Agricola (INDECA), a parastatal food marketing organization comprised of government and private sector representatives. INDECA's role in the PL 480 Title I Program was to receive and sell vegetable oil under the fiscal year 1984 PL 480 program. Also, INDECA received $1 million worth of corn (15,000 metric tons) in November 1986 for the fiscal year 1986 program, but its sale had not been completed as of August 1987.

INDECA officials stated that some of the corn was sold (about 11,500 metric tons remained in inventory as of June 1987) but the remaining inventory was being held for price stabilization purposes and emergency reserves. We were not able to determine the reasons why this corn was purposely not sold since we had observed in June 1987 the off-loading of another 50,000 metric tons of corn imported under section 416 of the Agricultural Commodity Foreign Donation Agreement. In addition, an INDECA official verified that the GOG approved the commercial importation of an additional 30,000 metric tons of corn for the private sector and that Argentina had donated another 2,500 metric tons of corn, all of the same grade. Further, Guatemala was expected to harvest a bumper crop of corn in 1987.

INDECA's decision to hold the corn since its delivery in November 1986 affected the implementation of the fiscal year 1986 PL 480 Title I program because $1 million in local currency was not available for self-help initiatives or to make the necessary Currency Use Payment (CUP) to the U. S. Embassy. Financial reports from the Ministry of Finance state that the currency use payment will be sent to the U.S. Embassy when the sales of commodities are completed under the fiscal year 1986 program.

The PL 480 Title I committee had not provided management oversight to ensure that sales proceeds were deposited. The sales agreement did not specify a time period within which deposits should be made, effectively placing this responsibility unilaterally with the GOG. This had resulted in $1 million in local currency not being made available for programming purposes and USG operations.

USG Agencies Did Not Ensure Timely Receipt of Currency Use Payments - Public Law 480 Title I agreements negotiated with the Government of Guatemala require that five percent of the imported value of commodities be set aside for payment of obligations to the United States Government and for carrying out its various programs. These payments, known as the Currency Use Payments (CUP), were to be paid on demand by the USG or at the end of the supply period (each fiscal year ended September 30). The applicable exchange rate for determining the amount of local currency to be paid to the USG was the rate in effect on the date of payment.

USG agencies did not adequately coordinate efforts to ensure the GOG made its currency use payments on time. For example, the CUP for the fiscal year 1984 program for $332,455 was due on September 30, 1985 but was not collected until June 18, 1987 (over 20 months late) after our audit disclosed the overdue payment. This occurred because the country team committee had not designated a representative to ensure CUP collections. The GOG requested the Bank of Guatemala to prepare a check for the required CUP payment in April 1986, but the Bank merely drew the check and held it, claiming it was waiting for someone from the U.S. Embassy to pick it up.

The CUP for the fiscal year 1985 program of $931,755 was deposited on April 4, 1986 but the U.S. Embassy had not received the CUP of $820,000 in local currency for Fiscal Year 1986 as of August 1987, because the Fiscal Year 1986 sales of all commodities had not yet been completed (see the first section above).

In addition, CUP payments were being made at the official exchange rate rather than the highest rate in effect on the date of payment, resulting in less favorable rates to the USG. For example, the fiscal year 1985 CUP payment was made in April 1986 at the official exchange rate of Q1 to $1. Since the market exchange rate at that time was Q2.85 to $1, the USG lost the equivalent of $604,823 in local currency. The equivalent of $209,322 was lost for the fiscal year 1984 CUP payment made in June 1987 for the same reason.

Although the fiscal year 1986 CUP payment had not been made, USAID/G has programmed its payment to the USG at an official exchange rate of Q2.50 to $1, even though a higher market rate prevails. Had the FY 1986 CUP payment been made in August 1987, we estimate the equivalent of $69,700 in local currency would have been lost because of the differences in exchange rates (Q2.50 to $1 vs. Q2.73 to $1).

The losses on the CUP payments occurred because the U.S. Embassy did not require CUP payments to be made at the highest lawful rate and accepted lower rates less favorable to the USG.

The GOG contended that, since the sales of commodities were made at the Q1 to $1 rate, they would pay five percent of the funds received for the commodity sales. However, the agreements specifically state that the exchange rate is the rate on the date of payment. This is so because currency use payments are offset against the amount of dollars the GOG owes the USG under the Title I loan. That the GOG decided to make the payment at a later date when the exchange was higher, is not a factor in determining the exchange rate for the CUP payment. U.S. Embassy officials did not require the CUP payment to be made at the highest lawful rate and accepted lower rates less favorable to the USG. This resulted in the equivalents of $814,145 for the Fiscal Year 1984 and 1985 programs and $69,700 for the Fiscal Year 1986 program not being available for USG activities. There was correspondence among the USG agencies concerning the GOG's use of the one to one exchange rate; however, contrary to the terms of the sales agreement, the Embassy accepted the lower exchange rate as payment for the CUP.

Deposits of Commodity Sales proceeds Were Not Made at the Highest Rate Not Unlawful - The Agriculture Trade Act of 1954, sales agreements for each year, and negotiating instruction cables from Washington, D.C. and other guidance required that deposits from the sales of commodities should be made at the highest rate of exchange not unlawful. In November 1984, the Government of Guatemala established a floating parallel exchange market that valued local currency in excess of the official one-to-one rate retained for certain transactions. However, due to Guatemala's poor financial condition at the time, the Minister of Economy established a list of essential commodities urgently needed by the country that included certain commodities imported under the PL 480 Title I program. These were required by law to be sold at the one-to-one rate by the GOG to the private sector for fiscal years 1984-1985, allowing the commodities to be sold at a cheaper price.

Several commodities imported under the fiscal year 1985 program were taken off the commodities list on July 2, 1985, allowing sales of those commodities at the parallel market rate. The PL 480 Title I Fiscal Year 1985 agreement was signed in June 1985 and included the importation of tallow valued at $7 million. This commodity was received in Guatemala in July and August 1985 and not reinstated on the essential commodities list. However, the sales proceeds were subsequently deposited at the one-to-one rate.

Also edible vegetable oil was removed from the essential commodities list in July 2, 1985, permitting its sale at the parallel market rate prices. A memorandum of understanding dated August 1985 was signed allowing the importation of edible vegetable oil valued at $5 million. However, when the edible vegetable oil arrived in the importing country on September 5, 1985, it was reinstated on the essential commodities list (on September 6, 1985) requiring the commodities to be sold at the Q1-to-$1 rate. The GOG reinstated vegetable oil on the essential commodities list due to the explosive social situation that could have resulted from price increases on food staples as a result of the devaluation of the local currency. Its Monetary Committee ruled that the commodities under the PL 480 Title I program be sold at the Q1-to-$1 and funds were deposited from the subsequent sales of the edible vegetable oil at the Q1:$1 rate.

These GOG actions were obviously taken to avoid pricing the commodities at the market rate of exchange, possibly resulting in PL 480 Title I commodities being sold at less than the market price in the country. Therefore, if the oil was in fact sold at a higher price (we were not given access to suppliers' records in order to make this determination), any such sales proceeds were not deposited at the highest rate of exchange not unlawful. PL 480 commodities were sold at a loss of possibly $3 million in local currency for the vegetable oil and at least $4.2 million in local currency equivalent for tallow.

The Agriculture Attache stated that the management of deposits of local currency was a weak point in the program and that his office had not monitored the timing nor the amount of deposited program funds. The committee had not designated an agency or individual to be responsible for ensuring that the GOG deposit sales proceeds at the most favorable exchange rate, resulting in a loss of approximately $7.2 million in local currency equivalent for programming purposes.

Management Comments

Mission officials did not directly respond to Recommendation No. 1 but identified USG management responsibilities over the Public Law 480 program as stated in A.I.D. Policy Determination and other guidance.

Officials responded to Recommendation No. 2(a) that the auditors "missed the stated purpose of the fiscal year 1986 agreement" since the corn was used as buffer stock for price stabilization due to a shortfall in domestic production. Mission officials also stated that the GOG had sufficient funds to pay the CUP from the sales of other commodities and it was not relying on the corn sales. However, they stated that the corn has now been sold and the funds had been deposited in the special account. With regard to Recommendation No. 2(b), the Mission stated that it was universally recognized that responsibility for collecting the Currency Use Payment in the country is the U.S. Treasury representative, i.e., the U.S. Disbursing Officer. They further added that the country team thoroughly assessed Guatemala's economic and political situation and made a deliberate decision to accept the Q1-to-$1 rate. For Recommendation 2(c), officials stated that the country team concurred on the exchange rate for GOG deposits of sales proceeds based on Guatemala's political and economic realities. For Recommendation No. 3, officials agreed that a time period should be established for deposits of sales proceeds in the agreements.

Inspector General Comments

Although Mission officials identified the Public Law 480 Title I responsibilities as stated in the AID policy determination and other guidance, concerns still remain whether the USG agencies share the same view. This observation was made based on interviews with all members of the country team at the time of our audit, i.e., the Agriculture Attache stated that it was not his responsibility to collect the CUP payment nor follow-up on deposits of sales proceeds. We do believe this continues to be a problem and request that USAID/Guatemala provide evidence that this issue has been brought to the attention of other PL 480 committee members. We realize this issue may fall outside A.I.D. authority, but we are requesting this action to avoid a lack of management oversight over crucial portions of the program, as obviously was the case in the past.

With regard to Recommendation No. 2(a), the fiscal year 1986 agreement states its purpose (as in all other years) as, among other things, in assisting the importing country to feed the population. Nowhere in our copy of the agreement or other documentation, is the purpose stated as commodities will be used as a buffer stock for price stabilization. With respect to the CUP payment not being made until the corn sales were completed, reports from the Minister of Finance state that the 1986 CUP would be paid upon completion of the corn sales. Upon receipt of documentation that all deposits were made, we will close this issue.

Subsequent to our draft report issuance, we were advised by the State Department Inspector General that the responsibility for CHP collection lies with the U.S. Embassy. Since this responsibility was outside of A.I.D.'s authority, the matter was referred to the Department of State and we will consider Recommendation No. 2(b) closed on issuance of the report.

During the exit conference, Mission personnel stated they would review the sales transactions for vegoil and tallow under the 1985 program and take appropriate actions to require GOG to make the required deposits if sales were verified to have been made in excess of the Q1-to-$1 rate. Upon receipt of acceptable documentation attesting to the actual rate at which the sales were made, we will close Recommendation No. 2(c). Upon receipt of documentation that the deposit deadline has been agreed to by the country team, we will close recommendation No. 3.

2. Sales Proceeds Were Not Effectively Utilized to Achieve Self-Help Objectives.

The Agriculture Trade Development and Assistance Act of 1954 and related operating instructions required that funds from the sales of commodities be programmed for self-help activities to improve the living conditions and increase agricultural production of the rural poor. USAID/Guatemala had not taken actions to: develop self-help activities with specific measurable indicators; ensure that funds were used in a timely manner; or use funds for the purposes as originally programmed. The achievement of these objectives was hindered because of ineffective management over the programming and monitoring of sales proceeds. USAID/Guatemala had ineffectively managed approximately $11 million in sales proceeds for self-help initiatives and was not able to identify the extent the rural poor had benefited from the Public Law 480 Title I Program.

Recommendation No. 4

We recommend that USAID/Guatemala provide:

a. a report of measurable indicators and the progress to date on the 1984-1986 programs. This could be a composite report of self-help activities along with a listing of funds scheduled to be completely expended;

b. an amendment to Mission Order No. 19.3, dated April 7, 1987, requiring that an annual progress report on the achievement of self-help initiatives be submitted to Washington, D. C.;

c. an operating plan from the Government of Guatemala scheduling when funds will be disbursed for the self-help initiatives and assigning funds not currently programmed to specific self-help initiatives;

d. evidence that the Government of Guatemala has reprogrammed the remaining $3.2 million in funds programmed for the Agriculture Development Bank toward self-help initiatives where the funds can be more effectively utilized; and

e. verification that the Government of Guatemala uses Public Law 480 Title I funds to fund only the three persons in the coordinating unit designated as performing activities for Public Law 480 Title I.

Discussion

Public Law 480 Title I legislation provides that, before entering into agreements for the sales of commodities, consideration should be given to the extent the recipient country is undertaking self-help measures to increase agricultural production and improve storage and distribution facilities. In addition, the law provides that the use of sales proceeds be directed toward improving the lives of the recipient country's rural poor and that each agreement and amendment describe the economic development and self-help measures in specific and measurable terms. The legislation also requires that appropriate steps be taken to determine whether the economic development and self-help provisions of each agreement and amendment are being fully carried out by the recipient country. These requirements were also established in fiscal year 1984, 1985 and 1986 negotiating cables from the Development Coordinating Committee to the negotiating team in Guatemala.

A.I.D. handbooks also required the Mission to seek specific commitments from the recipient government as a means to fulfill the requirements of the law, to provide for reviews of the achievement of self-help goals and expenditures of sales proceeds, and to submit progress reports on self-help initiatives each year. The audit disclosed that a) self-help initiatives did not identify the extent to which the rural poor had benefited nor establish terminal disbursement dates; b) the recipient country had not used programmed funds in a timely manner; c) sales proceeds were not assigned to specific self-help initiatives; d) funds programmed for the country's agriculture bank were not effectively managed; and e) sales proceeds were used to finance ineligible activities.

Self-Help Indicators Not Identified - Indicators were not developed in the fiscal years 1985 and 1986 agreements to identify either the targeted rural poor beneficiaries or the extent to which they would be helped by the self-help projects, nor were deadlines established for the completion of expenditures. The fiscal year 1984 agreement did state the extent that needy people were expected to benefit from the self-help measures, but the extent that self-help projects actually assisted these beneficiaries could not be determined because periodic progress reports were not prepared by USAID/Guatemala.

The fiscal year 1985 and 1986 sales agreements did not contain in specific and measurable terms the extent that rural poor people would be the beneficiaries of self-help initiatives. In addition, specific targets were not established to measure the accomplishments of self-help measures, goals had not been developed to complete expenditures and progress reports were not prepared on the extent that self-help initiatives were achieved.

We were told by the GOG officials that each implementing agency was required to develop verifiable indicators for self-help initiatives for the funds it was to receive. However, these indicators did not specifically identify the needy population that would be reached or establish expenditure deadlines, rather they were financial status reports for GOG programs. Moreover, USAID/Guatemala management had not prepared and submitted annual reports of progress in achieving self-help objectives.

Delayed Use of Funds - A.I.D. policy guidelines "state that sales proceeds should be spent as closely as possible to the time the PL 480 imports were used to minimize the net inflationary or deflationary effects of the agreements."

The pertinent A.I.D. Policy determination states that A.I.D. must monitor the use of sales proceeds and ensure that they are allocated to support economic development objectives.

The GOG had not used funds programmed for self-help initiatives in a timely manner, hindering the program's impact on Guatemala's rural poor. Title I programs for fiscal years 1984-1986 had produced about $41 million in commodity sales proceeds available for programming for self-help initiatives. Financial reports from the Ministry of Finance as of May 31, 1987 showed that only about $16 million (or 39 percent) of the funds were used for self-help initiatives. Below is a schedule of the funds received for each of the fiscal year programs.

Fiscal Year	PL 480 Funds Available	PL 480 Funds Programmed	PL 480 Funds Spent	% of Funds Used
1984	$ 6,649,095	$ 6,613,582	$ 2,755,712	41%
1985	18,635,105	14,802,258	10,276,200	55%
1986	15,580,000	15,580,000	2,795,415	18%
	$40,864,200	$36,995,840	$15,827,327	39%

USAID/Guatemala Management had not adequately monitored the Government of Guatemala's implementation of the self-help initiatives to ensure that funds were used to accomplish their objectives in a timely manner. Several of the self-help initiatives had encountered management problems that prevented the timely disbursement of funds (see Section C).

Sales Proceeds Not Assigned to Activities - The negotiating instructions for the fiscal year 1984 and 1985 programs required the country team committee to obtain from the GOG, before entering into the sales agreement, the extent that self-help measures had previously been carried out and contributed directly to increasing agricultural production. Sales agreements for the PL 480 Title I programs for fiscal years 1984 and 1985 realized over $25 million in sales proceeds available to fund self-help initiatives. Funds for both years were deposited and made available for use in 1985; however, financial reports from the Ministry of Finance show that about $3.9 million had not been assigned to specific activities as of May 31, 1987. These funds were not assigned because the GOG wanted to maintain a budget reserve of funds for unexpected activities. USAID/Guatemala officials had not monitored the use of sales proceeds to ensure effective utilization toward development projects because the accords were considered three-year agreements, in which all of the funds would not be budgeted and disbursed in the first year. USAID/Guatemala officials had not required the GOG to assign about $3.9 million in funds to specific activities, thereby hindering achievements of self-help initiatives and assistance to Guatemala's economic development.

Funds Were Not Effectively Programmed - A.I.D.'s Policy Determination required USAID/Guatemala to monitor and ensure that sales proceeds were allocated to support economic development objectives. The negotiating cable instructions from Washington, D.C. anticipated that the utilization of sales proceeds for self-help measures would produce specific measurable results in about one year. USAID/Guatemala management had programmed over $7.5 million in PL 480 Title I funds to the Banco Nacional de Desarrollo Agricola (BANDESA) as self-help initiatives. BANDESA is the country's agriculture development bank, making loans to the agriculture sector for a variety of purposes. The bank was identified by USAID/Guatemala management as being plagued with management and operational problems which adversely affected its utilization of programmed funds.

Sales proceeds were programmed to BANDESA for a variety of self-help activities. USAID/Guatemala programmed PL 480 Title I sales proceeds to BANDESA for logistical support and to provide credit to small farmers in 1984 for $2.2 million; $5.1 million was programmed in 1985 for capitalization of operations, a savings project and counterpart funds to a donor agency project; and for 1986, $320,000 was programmed for land conservation and crop diversification. However, $2.2 million had not been spent for 1984; $840,000 for 1985; and for 1986, $320,000, for a total of $3.3 million not achieving the programmed activities. In addition, BANDESA also received about $24 million in Development Assistance funds for other USAID/Guatemala projects.

USAID/Guatemala had programmed significant amounts of funds even though it could not be effectively used by BANDESA. USAID/Guatemala officials believed that programming funds to BANDESA would resolve its management and operational problems. However, funds remained idle in BANDESA because it could not absorb all these monies. The lack of effective management oversight and monitoring of the uses of sales proceeds resulted in funds programmed for BANDESA not advancing the self-help initiatives envisioned by the PL 480 Title I sales agreements.

<u>Sales Proceeds Were Used to Finance Ineligible Activities</u> - The PL 480 Title I fiscal year 1986 sales agreement programmed sales proceeds to establish a three-person coordinating unit within the Ministry of Finance office with a budget of $100,000 to be used over a multi-year period. Its purpose was to coordinate all technical, budgetary and administrative activities related to the design, implementation and reporting on PL 480 Title I programs between the Ministry of Finance and USG agencies. Specifically, the agreement provided for a coordinator, an accountant and a secretary to perform the necessary program functions at a cost of approximately $5,534 for six months.

In June 1987, USAID/Guatemala officials approved the use of PL 480 Title I sales proceeds to fund an 11-person coordination unit responsible for PL 480 Title I activities, including Section 416, as well as the ESF Program, A.I.D. Loans 520-K-036 and 520-K-041, and A.I.D. grants 520-0347 and 520-601A. The approval covered $42,226 for six months' activities and covered the salaries of a coordinator, financial accountants, civil engineer, secretaries, a computer operator and a chauffeur. In addition, funding was approved for a vehicle, office equipment and related maintenance expenses. Many of these expenditures were not related to the PL 480 program, which by statute is limited to agricultural and nutrition projects.

USAID/Guatemala and the GOG planned expenditures to administer PL 480-related self-help initiatives. However, they had expanded support services beyond the requirements necessary for PL 480 Title I administration. This resulted in approximately $36,700 in planned expenditures every six months, or approximately 73 percent of the $100,000 funds programmed, for use within the Ministry of Finance to support non-PL 480 activities.

Management Comments

Mission officials generally agreed with the findings and provided documentation sufficient to close Recommendation 4(b) on the issuance of the report. For the other findings and recommendations, the Mission provided an explanation of their actions. They took exception to the auditors' description of the Mission's monitoring actions observed during the time of the audit.

Office of the Inspector General Comments

The Mission should provide documentation for Recommendations No. 4(a), a report on measurable indicators and progress to date for the 1984-1986 programs; 4(c), an operating plan from the Government of Guatemala; 4(d), documentation of the reprogrammed $3.2 million for BANDESA; and 4(e), reallocation of funds for the PL 480 Title I Coordinating Unit.

B. Compliance and Internal Control

1. Compliance

The audit disclosed non-compliance with the sales agreements regarding the use of sale proceeds. The Government of Guatemala had not deposited sales proceeds at the highest rate not unlawful, and Currency Use Payments were not made in a timely manner at the proper exchange rate. See Finding No. 1.

2. Internal Control

Finding No. 1 identified internal control deficiencies over ensuring the timely deposit of sales proceeds. In addition, Finding No. 2 reports that the USAID/Guatemala had not received progress reports on the extent self-help initiatives were accomplished, ensuring the timely programming and use of sales proceeds, and for ensuring that Public Law 480 local currency were used for Public Law 480 activities.

C. Other Pertinent Matters

The sales agreements require that the respective governments establish account reconciliation procedures to account for the commodity loan. The records from the Commodity Credit Corporation showed a difference of approximately $25,000 more than the records at the Ministry of Finance office and procedures had not been established to resolve this difference. Procedures were not established because appropriate financial records were maintained in Washington, D.C.; the PL 480 committee did not take responsibility for ensuring that this part of the sales agreement was implemented; and no one from the USG contacted the Minister of Finance office to resolve the $25,000 difference. USAID/Guatemala should request the Agriculture Attache in Guatemala to take the necessary actions in conjunction with the Ministry of Finance personnel to resolve the loan balance difference.

Good management practices require that adequate files and records over program activities be maintained by the Project Officer. The USAID/Guatemala office designated to oversee PL 480 Title I activities had not maintained sufficient records to adequately supervise program implementation. Program files not maintained included financial status reports, correspondence on project implementation, policy opinions on agreements reached with the GOG, or other documentation of program actions. With administration of the PL 480 Title I program by the country team committee, many program records were located in the office of the Agriculture Attache. Some correspondence was identified to be routed to USAID/Guatemala; however, those documents were not found in USAID/Guatemala's files. USAID/Guatemala should establish and maintain a record keeping system for reports, correspondence, committee actions, agreements and other pertinent information regarding the administration of Public Law 480 activities.

Mission Comments

Mission officials did not respond to these issues.

AUDIT OF
USAID/GUATEMALA
PUBLIC LAW 480 TITLE I PROGRAM

APPENDICES

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6

UNITED STATES GOVERNMENT

Memorandum

RIG OFFICE

TO : Mr. Coinage N. Gothard, Jr., RIG/A/T

DATE: Dec.17,1987

FROM : Anthony Cauterucci, DIR/USAID Guatemala

SUBJECT: Draft Audit Report on USAID/Guatemala PL 480 Title I Programs

Our thorough review of your draft audit report disclosed several factual inacurracies in the report as well as several subjects requiring clarification from the contextual perspective. We believe that the suggested corrections in your draft report will lead to a quality, implementable final audit report.

This reply addresses each of your findings, discussions, the deductions drawn therefrom in recommendations, results of audit summary and Executive Summary, citing the pages in the draft audit report referred to by our comments. If you decide against revising your draft report, USAID/Guatemala insists that you include our comments at each point in the final report that we have referenced, including in the Executive Summary.

First, however, some general points are made. Mission officials object to the auditors use of perjorative words used so liberally throughout the audit report; the facts should speak for themselves; the value judgements expressed in inflamatory language serve no useful purpose in a professional audit report. (Refer to Draft Audit Report pages ii, iii, 4, 7, 9, 10) To amplify, we believe the USAID/Guatemala personnel to be among the best in the Agency; they are effective, motivated and highly productive. In spite of constraints in numbers of staff they are effective managers, making sound judgements to meet changing economic circumstances on a recurring basis and within political realities and with appropriate Country Team coordination. A reader of your draft audit report would arrive at opposite conclusions.

The audit report seems to disparage a committee approach to management of the PL 480 Title I program. However, a joint activity, while not perfect, is the best means of assuring a unified USG approach. We believe that it is the organizational arrangement employed worldwide and it also mirrors the DCC structure in Washington. During the period covered by the audit (1984-86) the Country Team, headed by the Ambassador of the United States of America, in its wisdom and as prescribed in guidance from Washington, decided that a committee would manage the PL 480 Title I program for

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Guatemala, i.e., negotiate agreements, monitor the arrival of commodities, follow up on deposit of sales proceeds, arrange for deposit of Currency Use Payments, program the funds in line with self-help objectives and monitor use of the local currencies generated under the programs.

The Ambassador designated the Assistant Agricultural Attache as Chairman of the three-member committee, the other two officers being the USAID Chief of the Rural Development Office and the Assistant Economic Officer of the Embassy. Since the team approach was used from the beginning with the first Title I program in 1984, USAID never withdrew from its normal involvement. (The draft report statement on page 4, paragraph 2, is erroneous.) This Country Team effort, designed for USG coordination, does not imply, as stated in the draft audit report, that responsibilities normally carried out by USAID were subsumed by committee action. To the contrary, under this organizational arrangement, USAID and other USG entities are responsible for management obligations as envisioned by A.I.D. Policy Determination No. 5 and other guidance as follows:

Responsibilities	Agency/Primary/Joint Responsibility
Negotiate Agreement	Joint Committee
Monitor Shipping and Arrival of Commodities	Agricultural Attache
Follow-up on Deposit of Sales Proceeds	Agricultural Attache
Arrange for Deposit of CUP	Agricultural Attache, USDO
Program Local Currency Generations:	
USDA Projects	Agricultural Attache
All Other Projects	USAID
Monitor Use of Local Currency:	
USDA Projects	Agricultural Attache
All Other Projects	USAID
Develop Self-Help Measures	USAID
Monitor Progress in Meeting Self-Help Measures	USAID
Evaluations	Joint Committee and/or agencies as appropriate.

(A.I.D. Handbook 9 and PD No. 5 do not suggest more USAID involvement than outlined above. The auditors' criticism of USAID for "withdrawing" from their responsibility is in error.)

In the Title I programs for FY 1984 and FY 1985, the self-help measures were defined and allotted their respective appropriations in the Agreements and related Memoranda of Understanding (MOU). They were monitored using the following procedures:

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...a special account was opened in the Bank of Guatemala to receive the sales proceeds of each year, which were then distributed to:

...the bank account opened for each self-help project, as per the distribution already established in the Agreement and MOU.

The same procedures were followed for the FY 1986 Title I Agreement, with the exception that due to the increase in the number of individual self-help initiatives, it was not considered cost-effective by the Bank of Guatemala, concurred with by the USG, to open a separate bank account for each project. Instead, the control unit established in the External Finance Department of the Ministry of Finance, opened a manually operated subsidiary ledger to control the programming and expenditure at the individual project level.

The Ministry of Finance has always submitted the required periodic reports, and these have been used to monitor the overall expenditure levels of each local currency activity, and to pressure the GOG to investigate and remedy the delays in executing these initiatives.

There is ample correspondence in the files expressing the concern of USAID and the Embassy regarding operational delays and the various meetings held to determine the specific remedial measures to be taken, and general meetings, e.g., the one held on March 24, 1986, under the chairmanship of the Deputy Minister of Agriculture to review the status of the Title I programs for 1984, 1985 and 1986. The negotiating stance adopted in each successive year included additional pressure for accelerating prior year programs.

To be realistic, we also must take into account the changes in government that occurred during this period and the consequences that this had on the continuity of the initiatives and also on the negotiations with regard to budgeting, programming and execution of these programs.

As discussed in the balance of this paper, USAID carried out its responsibilities generally in line with Agency policies in effect at the time, both individually and severally as a member of the Country Team. This does not infer that procedural improvements are not needed as well as some strengthening in monitoring in line with the Agency's evolving local currency policies.

In summary, "conflicts" did not cause "ineffective management" and "loss" of local currencies for development programs, nor is there evidence of USAID "withdrawal from involvement" as stated in the draft audit report. Specific sections of the audit report are addressed below.

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Mission Order on Local Currency Programming, dated 4/7/87 (Refer to Draft Audit Report pages ii., 4,5).

Contrary to the draft audit report, the subject Mission Order was very timely in relation to the current Agency interest in local currency management; our Mission Order is recognized as a model for LAC. The Manual Order institutionalized existing USAID practices previously in effect and incorporated the latest guidelines from AID/W covering programming and monitoring of local currencies. Therefore, the statement in the draft audit report that the "Mission has been slow to put their guidelines into effect" is false. Furthermore, your draft report is inaccurate in inferring that USAID did not assume responsibility for monitoring the use of sales proceeds for designated development activities. This has always been the Mission's responsibility. Substantial portions of such local currencies have been historically incorporated into USAID's programming and monitoring process. All of the Title I sales proceeds programmed in the sales agreements for development activities have been subject to the GOG budget process and to USAID's monitoring of the reports emanating from that process. We believe this to be consistent with the existing A.I.D. policy guidance at the time. This subject is specifically addressed above and developed further below in reply to your audit finding A.2.

Recommendation No. 3 (Draft Audit Report, Page 9)

The Mission agrees that in future Title I sales agreements a specified, reasonable period of time for the GOG to deposit sales proceeds be established.

Deleted - Relates to Matter Not Included in Final Report

Deleted - Relates to Matter Not Included in Final Report

A.1.B. (Page 12) "Currency use Payments Were Not Properly Managed by USG Agencies"
(Refer to Draft Audit Report pages 8, 12, 13, 14, 15, 29 and Exhibit 1

The responsibility for collection and use of Currency Use Payments (CUP) is recognized universally as a function of the U.S. Treasury representative at post, i.e., the U.S. Disbursing Officer (USDO), in coordination with the Agricultural Attache. USAIDs do not ordinarily share this responsibility. However, when the auditors informed USAID/Guatemala management that the CUP collection for FY 1984 had not been received by the USDO, USAID arranged for immediate collection and deposit by the USDO. However, the audit report should note that the delay in collection of the FY 1984 CUP related to a discrepancy in the payment records between the GOG Ministry of Finance and the USG in Washington.

The audit report should reflect that the USG, represented by the Country Team, thoroughly assessed the economic and political situation in Guatemala at that moment and made a deliberate decision to accept the Q1 to $1 rate for CUP deposits. (Letter dated February 13, 1986 from the Deputy Chief of Mission to the Minister of Finance is attached.) In part, this action was due to the actual import of Title I commodities at a Q1 to $1 rate. Therefore, the Mission considers that the CUP deposits were appropriately calculated and no corrective action is required.

A.1.C. (Page 15) "Sales Proceeds Were Not Deposited in Interest Earning Accounts"
Refer to Draft Audit Report pages 8, 15, 16, 19 and Exhibit 1)

Contrary to the auditors' opinion, the Mission cannot and should not force the GOG to break its own laws governing the Central Bank not paying interest on Government deposits. Furthermore, as the A.I.D. PD No. 5 of February 1983 indicates the USAID can only "encourage" the GOG in this direction. However, at the time of the Title I Sales Agreements in question, Guatemala was experiencing critical economic problems which the USG was attempting to assist the GOG in resolving. The Country Team did not wish to exacerbate these economic problems by monetizing

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local currencies, thereby creating additional inflationary pressures. Therefore, the temporary deposit of the Title I generated local currency in an interest bearing account as stated in the draft audit report would have been inappropriate and counterproductive to the country's economic stability.

A.1.D. (Page 16) "Deposit of Commodity Sales Proceeds were not Made at the Highest Rate not Unlawful"
(Refer to Draft Audit Report pages 8, 16, 17, 29, and Exhibit 1)

In 1984 all commodities were imported at the $1 to Q1 exchange rate and deposited as such in the local currency account. In 1985 the Monetary Board ruled that all commodities brought into the country under the Title I program would be sold at $1 to Q1; the sales proceeds were deposited accordingly. The statement by the auditors that the GOG purposely avoided depositing sales proceeds at the highest rate by authorizing sales at $1 to Q1 is blatantly false, since the $1 to Q1 ruling was reinstituted to keep consumer prices down and emotions cool as the military government was preparing the transition to democracy.

The Country Team concurred in the exchange rate for GOG deposits of sales proceeds based upon political and economic realities in Guatemala. Therefore, the auditors' computation in their draft audit report of a hypothetical "loss" of local currency for programming purposes serves no useful purpose. Article II, Section F of the Agreement indicates that the exchange rate to be used is one applicable to commercial imports of the same commodities, i.e., in this case Q1 to $1.

Deleted - Relates to Matter Not Included in Final Report

A.2. "Sales Proceeds were Not Effectively Utilized to Achieve Self-Help Objectives"

First, the audit report should differentiate between self-help measures and development activities using local currency from sales proceeds. It appears as though all of the recommendations made by the auditors under A.2 actually deal with development activities using local currency rather than "self-help measures"; the following USAID comments are based on this understanding.

A.2.A. "Self-Help Indicators not Identified"
(Refer to Pages ii, iv, 20, 21, 22)

Interalia, the following statements in the discussion are not supported by the facts nor do they contribute in any way to the resolution of issues affecting the Title I programs:

> "The audit showed that the Mission did little if anything to ensure the proper use of these monies." (pages ii, 4)
>
> "USAID/Guatemala had not taken actions to develop self-help measures with specific measurable indicators; to ensure that funds were used in a timely manner; or to ensure that funds were used for the purposes as originally programmed." (pages iii, 20)
>
> "...ineffectively managed approximately $11 million in sales proceeds for self-help initiatives." (pages iv, 20)
>
> "The lack of effective management oversight and monitoring of the uses of sales proceeds resulted in funds programmed for BANDESA not advancing the self-help initiatives...." (page 26)

The audit report should include comments with respect to development activities (the auditors' self-help measures) incorporating the following points:

..Pursuant to annual guidelines from AID/W, local currency uses are arrived at jointly by the Country Team and representatives of the GOG. The resulting specific local currency uses are submitted to AID/W as part of the total Title I proposed agreement for review by the DCC chaired by the Administrator of A.I.D.

..The proposed development activities with local currency are approved by the DCC, then transmitted by AID/W to the Mission as part of the total proposed Title I Agreement.

..The local currency uses are monitored by the Title I Country Team to assure that they are included in the GOG budget and that quarterly financial reports on their use are forwarded to the Mission, which are reviewed and any necessary follow-up action is taken.

The auditors correctly identified the problem of GOG under-expenditure of PL 480 sales proceeds, but did not assess it in terms of the same problem existing with the overall Mission and other donor portfolios in the Guatemala context. Under-expenditure of funds is a generic problem in Guatemala, as in the rest of the developing world, resulting from inefficiencies in budgetary and administrative processes rather than a lack of AID or other donor efforts at administering programs and funds. The auditors' statements do not reflect the tremendous efforts that the Mission takes in dealing with PL 480 sales proceeds under-expenditures.

The auditors' observation that specific verifiable and measurable indicators were not developed for the self-help measures (i.e., local currency uses) within the Agreements or in separate memoranda is correct. Although, measurable outputs were to be identified by the implementing units when they presented their budgets and operating plans to the Ministry of Finance and the Planning Secretariat for review and approval, this in fact has not occurred on a uniform basis. The USG has allowed the GOG to use its own criteria and programming procedures to identify these indicators, which seemed to be the most appropriate approach during the first two Agreements (FY 1984 and FY 1985). Nevertheless, with increased monitoring requirements now placed upon the Mission, we agree that it will require more detailed, measurable outputs in separate memoranda in future agreements.

A.2.B. "Delayed Use Of Funds"
(Refer to pages ii, 4, 23)

The principal problem identified by this finding appears to be the monitoring of the GOG implementation of development activities with local currency. Slow budgeting/disbursements are directly related to the delays in establishing appropriate mechanisms and procedures for the FY 1984 and FY 1985 Agreements, which did not permit availability of funds for disbursement until March 1986. Delays also resulted in the early stages of both Agreements due to the lack of personnel in the Ministry of Finance to handle the specific matters related to the Title I programs and because of concurrent responsibilities for management of new ESF and Section 416 programs.

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Solutions to the timely use of funds by BANDESA is in process of being resolved. On November 17, 1987, a trust fund was established with BANDESA for monies generated by the FY 1984 Agreement. This action will aid the Title I program in resolving delays. (See also reply to A.2.D. below.)

A.2.C. "Sales Proceeds Not Assigned to Activities"
(Refer to pages ii, 4, 24)

The principal point under this finding is that over $3.9 million had not been specifically assigned for development activities as of May 31, 1987, because the GOG wanted to maintain a budget reserve. Although the reserve exists in the Ministry of Finance, it was programmed as such in order to be able to provide those AID counterpart institutions, which were implementing efficiently and had increasing needs, with greater access to funds, while simultaneously removing funds from those institutions which had not demonstrated the implementing capability to use them. Of the $1,731,000 budget for counterpart funds for 1987, we requested on September 1, 1988, that the Ministry of Finance earmark $1,500,000 of these funds for specific project activities.

It should also be pointed out that the first two Agreements (FY 1984 and FY 1985) were considered by all parties involved to be three-year agreements in which not all of the funds would be budgeted and disbursed in the first year. This explains the timing of the budgetary process for these funds and the need for the reserve funds.

We agree with the recommendation that funds not currently programmed and/or earmarked from the FY 1984 and FY 1985 Agreements be properly budgeted in 1988.

A.2.D. "Funds Ineffectively Managed"
(Refer to pages ii, iii, iv, 20, 25, 26)

The auditors particularly targeted the budgeting of sales proceeds through BANDESA that did not move. It is a fact of life that if incomes of the rural poor are to be improved, they have to be provided access to credit. BANDESA is the only banking entity at present that even attempts to lend to rural poor in Guatemala. A high-level agricultural private sector task force to Guatemala in April 1987 recognized this fact and recommended that the Mission continue to work with and expand efforts with BANDESA.

The self-help measures included in the FY 1985 Agreement were directed at improvements in BANDESA's small farmer lending programs. The emphasis was placed upon a modification of

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interest rate policies, a continution of efforts to recover delinquent loans, and improvements in resource mobilization and operational practices to permit the Bank to better serve its small and medium-scale farmer clientele.

In early 1987 a joint USAID/BANDESA working group was created to review and recommend solutions to the internal and external problems affecting the Bank's ability to effectively utilize Title I resources. Progress has been made and specific reprogramming recommendations to modify eligibility criteria and promote more effective utilization of AID resources are being prepared for GOG and Mission consideration.

To date substantial efforts have been made to improve and streamline small-farmer lending. Interest rates on trust fund lending have been raised and standarized at 10%; documentation requirements and thus borrower transaction cost have been reduced; a hard line has been taken on delinquent loans and new portfolio classification and collection procedures have been introduced; the Bank's legal department has been reorganized; authorized credit limits for specific crops have been updated; and credit approval authority has been increased from Q5,000 to Q15,000 in the Bank's rural agencies.

The USAID/BANDESA working group has currently reached a point where additional in-depth institutional analysis is necessary to dentify and recommend solutions to the Bank's internal problems. An RFP for short-term technical assistance has been issued and the team is expected to arrive in January 1988. The results of this analysis will permit both the GOG and the Mission to develop proposals for additional improvements in the credit delivery and recovery systems serving small and medium-scale farmers.

In summary the auditors fail to recognize the tremendous efforts taken by USAID and BANDESA to resolve major stumbling blocks to utilize Title I resources to benefit the rural poor.

With regards to general programming and monitoring of Title I sales proceeds, most of the funds are programmed as counterpart for AID-financed projects. However, the auditors failed to recognize that when funds are targeted in this way, they receive USAID oversight similar to that accorded to our dollar-financed projects. The local currency also directly contributes to the same benchmarks and development goals.

A.2.E. Sales Proceeds Were Used to Finance Other Than Self-Help Activities."
Refer to page 26)

We do not refute the auditors' observation that Title I local currencies were used to support activites with a broader Mission outlook than just those related to the Totle I program. The same office in the Ministry of Finance handles Title I, ESF and section 416 programs and these programs have grown much more rapidly than envisioned, both in terms of number of activities to monitor and total amount of funds handled. Placing the priority of the Mission where it belongs -- on effective planning, implementation, and monitoring -- the Mission decided to support this MOF office in the broader context. Now that the support for this office to those people directly involved with Title III activities, thereby fulfilling the auditors' recommendation.

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MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6
UNITED STATES GOVERNMENT

Memorandum

RECEIVED
US AID
15 OCT 1987
RIG OFFICE

TO : Coinage N. Gothard, RIG/A/T

DATE: Oct. 13, 1987

FROM : Anthony Cauterucci, DIR

SUBJECT: Response to Records of Audit Findings (RAFs) on Mission 1986 ESF Program and the PL 480 Program

Attached are the Mission's draft responses to the subject RAFs. These are the same responses presented to you during your exit conference.

There are several points which I believe should be made in the opening or background portion of the report, regardless of whether similar comments are included in the detailed findings. This will serve to provide the reader with the proper context within which the Mission was working.

-The ESF program in Guatemala was a new program requiring the development of new monitoring, reporting and accounting procedures for both USAID and the Government of Guatemala (GOG). The audit was conducted less than one year after the program began, and before many of these new systems could be fully installed and tested by both sides. In addition, increased congressional concerns and continually changing guidance from AID/W and the LAC Bureau have required constant adjustment to monitoring requirements. The Mission had prepared and issued a Mission Order on programming and monitoring local currency generations. While some aspects of the monitoring procedures were not fully in place, notably staffing, the Mission Order was being implemented. The 1987 generations had not yet been utilized by the GOG, thus auditing and reporting were not yet possible.

-On the PL 480 side relationships between USG Agencies in Guatemala in respect to responsibilities for the program were complicated by a committee approach within which duties and responsibilities were unwritten. The former DCM insisted that a PL 480 country team be established, composed of the Assistant Agricultural Attaché, Chairman, the Assistant Economic Officer of the Embassy, and the Chief of the Rural Development Office of USAID. This is not the normal system used to manage Title I programs. Typically, interagency

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protocol recognizes AID's comparative advantage and it takes the lead role in negotiating and monitoring Title I programs. The diffusion of authority here creates unnecessary confusion particularly with respect to final responsibility. All official correspondence to the GOG is sent out under the DCM's signature, and the Ambassador signs all agreements.

The decisions of the country team are made by consensus, and due to the compatibility of the team members, this means of operation has worked fairly smoothly in the past. Specific responsibilities of the team members have been determined on an ad hoc basis. In 1986, when attempts were made by the team to officialize the responsibilities in a written document signed by all parties, marked differences again arose between the AID Mission and the Agricultural Attaché. Consequently, no such document yet exists and operations are still handled ad hoc. This has obviously caused some inconsistencies in policies, some responsibilities not being covered by any of the Team members, and official and working files being located in various offices. Perhaps the new Ambassador will recommend that this anomalous situation be rectified along traditional lines.

I would also like to clarify further the status of our system for monitoring local currency generations. On February 22, 1987, just two months before the start of your audit, AID/W sent, by STATE 052618, a policy instruction regarding inplementation of the FY 87 continuing resolution provision requiring separate accounts for dollars and local currency under ESF Cash Transfer Agreements. The cable also provided guidance as to the implementation of the House Appropriations Committee report which directs that local currency be traceable and not commingled. Until that time, PD 5 was the current guidance for both ESF and PL 480 local currency generations. PD 5 leaves the decision with the Mission as to the level of programming and monitoring. The Policy section of PD 5 states "Missions should entrust the recipient country with as much of the work of utilizing and accounting for the country-owned local currency as possible."

The Mission took appropriate action and issued a Mission Order on April 7, 1987, six weeks after receiving the guidance. This applies to the 1987 and subsequent programs. Prior to my arrival, the Mission had determined not to monitor the use of the 1986 ESF generations. A position not inconsistent with PD 5. However, I have changed that position. With my memo of April 24, 1987 I tasked the Controller with the responsibility of post audit and monitoring of the use of 1986 ESF generations. It was agreed that this would be carried out as soon as staff and funds were available.

Carrying out an expanded monitoring operation as required by the AID/W guidance cannot be done with existing staff and resources. New staffing positions had to be written up and established. Funding had to be found. Trust funds from the 1987 ESF Agreement, which provides funds for auditing were not available until May 1987. Recruiting, staff selection, and the lengthy security clearance procedure have all been necessarily time consuming. The Mission now expects the staff to be in place by the end of October. Training will still be necessary.

In spite of these delays, the actual monitoring of the 1987 ESF generations is not behind schedule. Joint programming has taken place. Reports have been received from the GOG on utlization of the funds, but a full fiscal year has not yet elapsed and therefore little basis for conducting an audit or review exists. As for accounting for the local currencies under the Trust Fund, this is taking place for OE, audit and PD&S funds. To date no funds have been requested for the Trust Funds which will be used for Private Sector projects.

In fact I believe that the Mission has acted very responsibly in the way in which it is responding to the new guidance.

You were not presented with written comments on RAF No. 12. The Mission agrees with the basic purpose of this finding which we understand to be the reprogramming of any unutilized ESF currencies assigned to the GOG 1986 budget. Such unutilized funds should be reprogrammed for agreed upon purposes in the 1987 GOG budget.

However the finding should not imply that reprogramming has not taken place. By letter dated February 2, 1987, the GOG provided a preliminary listing of unutilized 1986 ESF funds totaling Q50,444,004.37. This was in furtherance of their request of January 8, 1987 for reprogramming of the 1986 ESF local currency generations for the 1987 GOG budget. This reprogramming was approved by PIL No. 11 dated February 19, 1987. Copies of pertinent documents are attached.

We agree that additional follow-up and reconciliation needs to be done, including the cases identified by the auditors.

The last part of the recommendation should be dropped. The procedure of returning unused funds (not unspent) by the implementing agencies of the GOG is a normal requirement of their organic budget law. The source of the funds is immaterial, and no additional clarification is required.

List of Report Recommendations

Recommendation No. 1

We recommend that USAID/Guatemala provide evidence that management responsibilities have been defined in accordance with existing A.I.D. Handbook guidance, especially with respect to deposits of sales proceeds, for all agencies involved in the implementation of the Public Law 480 Title I Program.

Recommendation No. 2

We recommend that USAID/Guatemala obtain evidence that the following actions have been taken to ensure that:

a. funds representing the sales of corn from the 1986 sales agreement have been deposited in the appropriate account for programming purposes and that the currency use payment for 1986 has been deposited in the local U.S. Disbursing Officer account;

b. the currency use payments for fiscal years 1984, 1985 and 1986 have been recomputed at the highest rate not unlawful on the respective dates of payment, and any amounts owed by the Government of Guatemala have been deposited to the account of the United States Embassy; and

c. the commodity sales for tallow and edible vegetable oils imported under the 1985 program were in fact sold at the one quetzal to one dollar exchange rate. If sales were made in excess of this rate, the Government of Guatemala should deposit the resulting excess proceeds in the appropriate account.

Recommendation No. 3

We recommend that USAID/Guatemala ensure that future Public Law 480 Title I sales agreements include a requirement that sales proceeds be deposited within a specified period of time, preferably within 90 days after delivery of the commodities.

Recommendation No. 4

We recommend that USAID/Guatemala provide:

a. a report of measurable indicators and the progress to date on the 1984-1986 programs. This could be a composite report of self-help activities along with a listing of funds scheduled to be completely expended;

b. an amendment to Mission Order No. 19.3, dated April 7, 1987, requiring that an annual progress report on the achievement of self-help initiatives be submitted to Washington, D. C.;

c. an operating plan from the Government of Guatemala scheduling when funds will be disbursed for the self-help initiatives and assigning funds not currently programmed to specific self-help initiatives;

d. evidence that the Government of Guatemala has reprogrammed the remaining $3.2 million in funds programmed for the Agriculture Development Bank toward self-help initiatives where the funds can be more effectively utilized; and

e. verification that the Government of Guatemala uses Public Law 480 Title I funds to fund only the three persons in the coordinating unit designated as performing activities for Public Law 480 Title I.

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