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AUDIT OF USAID/JAMAICA  
PUBLIC LAW 480 TITLE I AND  
ECONOMIC SUPPORT FUND  
LOCAL CURRENCY PROGRAMS

Audit Report No. 1-532-88-15  
April 27, 1988

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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

OFFICE OF THE REGIONAL INSPECTOR GENERAL

**AMERICAN EMBASSY**

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April 27, 1988

MEMORANDUM

TO: D/USAID/Jamaica, William R. Joslin  
FROM: RIG/A/T, *Coinage N. Gothard*  
SUBJECT: Audit of USAID/Jamaica Public Law 480 Title I and Economic Support Fund Local Currency Programs.

The Office of the Inspector General for Audit/Tegucigalpa has completed its audit of the USAID/Jamaica Public Law 480 Title I and Economic Support Fund Local Currency Programs. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains four recommendations. Recommendation No. 3 is considered closed and requires no further action. Recommendations Nos. 1, 2 and 4 are resolved and will be closed upon receipt of documentation of planned actions. Please advise me within 30 days of any additional actions taken.

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

## EXECUTIVE SUMMARY

To support development objectives, USAID/Jamaica uses local currency funds generated from the Economic Support Fund and Public Law 480 Title I programs along with Development Assistance funds. The Mission uses the local currency programs to support structural reforms necessary for broadly based, export-oriented economic growth and to support expansion of diversified private sector agriculture.

The Government of Jamaica made available approximately \$133 million in local currency under the Economic Support Fund and Public Law 480 Title I programs for 1986 and 1987. This Government of Jamaica-owned local currency was programmed through an attribution process, that is, the Government allocated local currency resources to on-going projects and activities that reflect appropriate development priorities, with the approval of USAID/Jamaica.

The Office of the Regional Inspector General for Audit/Tegucigalpa attempted to perform a program results audit of Jamaica's Economic Support Fund and Public Law 480 Title I programs. However, during the audit of end-use activities for Public Law 480 Title I, we were denied access to the books and records of certain implementing agencies. This issue is the subject of another audit report to the Bureau for Food for Peace and Voluntary Assistance. The audit was changed to an economy and efficiency and compliance audit. The audit objectives were to determine if USAID/Jamaica had monitored the uses of local currency and to determine the Government of Jamaica's compliance with the Economic Support Fund and Public Law 480 Title I agreements. This audit was limited to reviewing expenditure reports and methods and procedures used by USAID/Jamaica to monitor local currency uses.

USAID/Jamaica had not adequately monitored the Government of Jamaica's uses of local currency. Also, the Government of Jamaica had not fully complied with all the provisions of the Economic Support Fund and Public Law 480 Title I agreements.

USAID/Jamaica had determined the extent of its involvement in programming local currency as required by Policy Determination No. 5. It had also taken steps to obtain from the Government of Jamaica adequate documentation for programming these monies and was receiving quarterly expenditure reports under each of the programs.

The audit resulted in four findings: USAID/Jamaica had relied upon the Government of Jamaica's accounting and auditing systems without performing an assessment of them; sales proceeds under the Public Law 480 Title I program were not deposited in a timely manner; there was a lack of adequate accountability over A.I.D. cash transfer dollars in the Economic Support Fund Program; and reports on Trust Fund expenditures were not prepared.

Policy Determination No. 5 allows Missions to determine the optimum level of their involvement in programming and monitoring local currency. USAID/Jamaica had chosen a low level of involvement, which implied their reliance on Government of Jamaica accounting and auditing systems. In addition, the sales agreements provide that a report of receipts and expenditures would be provided to the Mission annually. The reports the Mission received were inaccurate and late. Therefore the Mission could not adequately monitor local currency programs and activities amounting to approximately \$133 million worth of local currency for 1986 and 1987. We recommended that the Mission assess the accuracy of the government's accounting and auditing systems, receive quarterly reports in a timely manner and require annual certified reports. The Mission concurred and has initiated appropriate actions. The recommendation is resolved and will be closed when the actions are completed.

The Memorandum of Understanding under the 1986 Public Law 480 Title I sales agreement established that Public Law 480 Title I commodity sales proceeds were to be deposited within 120 days after the arrival of each commodity shipment. The Jamaica Commodity Trading Company, the entity responsible for purchasing and selling the commodities, and collecting and depositing sales proceeds was not making timely deposits to the special account at the Bank of Jamaica. This same deficiency had been reported in a 1985 Office of the Inspector General report. Company officials claimed that deposits of sales proceeds were delayed because of collection problems and that deposits of sales proceeds were made as instructed by the Ministry of Finance. As a result, less than six percent of the Public Law 480 Title I commodity sales proceeds had been deposited within the 120-day timeframe established in the agreements, as of September 15, 1987. We recommended that USAID/Jamaica establish a system to monitor deposits and identify overdue deposits. The Mission agreed and the recommendation will be closed upon confirmation of actions taken.

Statutory provisions implemented by A.I.D. policy guidance required that U.S. dollar cash transfers be deposited and payments be made from the separate account established by the recipient country to ensure that these monies would be used for approved purposes. However the agreement and amendments did not require that the dollars be accountable to their end use (foreign debt payment) and the Government of Jamaica was not obligated to document such end uses. As a result, the \$11.5 million cash transfer was used by the Bank of Jamaica to reimburse itself for debts that were previously paid and the dollars could not be tracked to their end-use. We recommended that eligible transactions be substituted. Based on documentation already provided this recommendation is closed.

The USAID/Jamaica-Government of Jamaica Trust Fund Agreement and A.I.D. Handbook 19 require that reports of trust fund expenditures be provided to the host country government. The Economic Support Fund agreements from 1982 to the present provided approximately \$12.5 million in local currency trust funds. USAID/Jamaica had used approximately \$9.6 million to defray program, operating and contract costs. USAID/Jamaica had not

sent any expenditure reports on trust fund activities to the Government of Jamaica. Mission officials consulted with representatives on trust fund budgets, the proposed expenditures of trust funds, which they believed fulfilled A.I.D.'s reporting requirements. We recommended that expenditure reports be provided to the Jamaican Government. The Mission agreed to do so and the recommendation will be closed upon our receipt of the report. As a result, the Mission had not discharged its fiduciary responsibilities vis-a-vis the host government.

*Office of the Inspector General*

AUDIT OF USAID/JAMAICA  
ECONOMIC SUPPORT FUND AND  
PUBLIC LAW 480 TITLE I  
LOCAL CURRENCY PROGRAMS

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AUDIT OF USAID/JAMAICA  
ECONOMIC SUPPORT FUND AND  
PUBLIC LAW 480 TITLE I  
LOCAL CURRENCY PROGRAMS

PART I - INTRODUCTION

A. Background

To support development objectives, USAID/Jamaica uses local currency funds generated from the Economic Support Fund (ESF) and Public Law (PL) 480 Title I programs along with Development Assistance funds. The Mission uses the local currency programs to support structural reforms necessary for broadly based, export-oriented economic growth and to support expansion of diversified private sector agriculture.

The Government of Jamaica (GOJ) made available approximately \$133 million in local currency under the Economic Support Fund and Public Law 480 Title I programs for 1986 and 1987. This Government of Jamaica-owned local currency was programmed through an attribution process, that is, the Government allocated local currency resources to on-going projects and activities that reflect appropriate development priorities with the approval of USAID/Jamaica.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa attempted to perform a program results audit of Jamaica's Economic Support Fund and Public Law 480 Title I programs. However, during the audit of end-use activities for Public Law 480 Title I, we were denied access to the books and records of certain implementing agencies. This issue is the subject of another audit report to the Bureau for Food for Peace and Voluntary Assistance. The audit was changed to an economy and efficiency and compliance audit. The audit objectives were to determine if USAID/Jamaica had monitored the uses of local currency and to determine the Government of Jamaica's compliance with the Economic Support Fund and Public Law 480 Title I agreements. The audit was limited to reviewing expenditure reports and methods and procedures used by USAID/Jamaica to monitor the use of local currency.

To accomplish the audit objectives, we reviewed pertinent records and files at USAID/Jamaica and the Government of Jamaica's Ministries of Finance and Agriculture and interviewed officials at USAID/Jamaica, Government of Jamaica, Bank of Jamaica and at various implementing agencies. We also reviewed audit reports on projects and activities supported by USAID/Jamaica, a General Accounting Office discussion paper, and an evaluation report on the Economic Support Fund program. Internal controls were evaluated as they pertained to problem areas identified by this audit. The audit was performed from November 2, 1987 to February 10, 1988, covering the audit period for 1986 and 1987, and ESF and PL 480

programs for the following amounts: the Economic Support Fund for \$11.5 million in cash transfers and \$6 million in local currency; the Public Law 480 Title I program for \$71 million in sales proceeds deposits and approximately \$32 million in local currency disbursed to projects. The audit was performed in accordance with generally accepted government auditing standards.

AUDIT OF USAID/JAMAICA  
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PART II - RESULTS OF AUDIT

USAID/Jamaica had not adequately monitored the Government of Jamaica's uses of local currency. Also, the Government of Jamaica had not fully complied with all the provisions of the Economic Support Fund and Public Law 480 Title I agreements.

USAID/Jamaica had determined the extent of its involvement in programming local currency as required by Policy Determination No. 5. It had also taken steps to obtain from the Government of Jamaica adequate documentation for programming these monies and was receiving quarterly expenditure reports under each of the programs.

The audit resulted in four findings: USAID/Jamaica had relied upon the Government of Jamaica's accounting and auditing systems without performing an assessment of them; sales proceeds under the Public Law 480 Title I program were not deposited in a timely manner; there was a lack of adequate accountability over A.I.D. cash transfer dollars in the Economic Support Fund Program; and reports on Trust Fund expenditures were not prepared.

To assist the Mission, the report recommends that USAID/Jamaica assess the adequacy of the GOJ's accounting system; that the government deposit sales proceeds in accordance with sales agreement requirements; that the Bank of Jamaica substitute eligible debt repayment transactions for the \$11.5 million cash transfer; and that a Mission report on all previous trust fund expenditures be prepared and sent to the Government of Jamaica.

USAID/Jamaica officials generally agreed with the audit findings and recommendations. Based on their response, one finding was deleted and another finding was included as another pertinent matter. The Mission's response is included as Appendix I to the report.

## A. Findings and Recommendations

### 1. Mission Needs to Assess Government of Jamaica's Accounting and Auditing Systems

Policy Determination No. 5 allows Missions to determine the optimum level of their involvement in programming and monitoring local currency. USAID/Jamaica had chosen a low level of involvement, which implied their reliance on Government of Jamaica accounting and auditing systems. In addition, the sales agreements provide that a report of receipts and expenditures would be provided to the Mission annually. The reports the Mission received were inaccurate and late. Therefore the Mission could not adequately monitor local currency programs and activities amounting to approximately \$133 million worth of local currency for 1986 and 1987.

#### Recommendation No. 1

We recommend that USAID/Jamaica provide evidence that actions have been taken to:

- a. formally assess the adequacy and reliability of the Government of Jamaica's accounting and auditing systems utilized to account for local currency programs and activities
- b. receive quarterly reports on receipt and disbursement activity in a timely manner under A.I.D.'s Economic Support Fund and Public Law 480 Title I programs; and,
- c. request the Auditor General's Office of the Government of Jamaica or the Government's accounting authority to provide certified annual local currency status reports.

#### Discussion

In 1984, Policy Determination No. 5 (PD-5), "Programming Public Law 480 Local Currency Generations" was amended to include cash transfer programs and further emphasized increased A.I.D. involvement in the use of local currency. The purpose of the amendment was to identify the appropriate level of A.I.D. involvement in programming local currency within host government budgets and economic policies, and to provide new guidance on prioritizing the use of local currency. The revised instructions encouraged A.I.D. participation in programming host country-owned local currency to achieve developmental objectives, but the extent of A.I.D. involvement depended on whether the recipient government allocated its own budgetary resources or whether A.I.D. took a more active role in deciding the government's allocation of resources.

USAID/Jamaica decided that less involvement in programming local currency resources was the appropriate course in its case. When Missions took this approach, revised PD-5 required them to review the recipient

government's procedures for programming, releasing and controlling local currency, and for monitoring and evaluating the implementation of specific activities, including reporting requirements. USAID/Jamaica's Fiscal Year 1988 - 1989 Action Plan dated March 1987 reported that its current monitoring responsibilities include receiving bank statements and transmittal letters. Hence, the Mission's monitoring system is dependent on the integrity of the GOJ's own internal accounting and auditing system for reporting actual project expenditures by the individual functional line ministries. The Action Plan also states that the line ministries' procedures for reporting actual project expenditures are reviewed on a periodic basis by the Mission Controller's Office.

The Government of Jamaica submitted quarterly activity status reports, the Mission's key tool for monitoring the uses of local currency. However, we determined these reports were unreliable, as they reported expenditures which were not in agreement with end-user activity expenditures. There were discrepancies between local currency disbursements reported by the GOJ's Ministry of Finance (MOF) and actual end-use expenditures as determined by our limited review of end-users before the problem of access to records was encountered. For example, under the ESF program, the MOF over-reported its September 30, 1987 disbursement figures for the Metropolitan Parks and Markets and Self-Start Fund projects by approximately \$879,000 and under-reported the Jamaica National Export Corporation project by approximately \$145,000. Under the PL 480 Title I program, the MOF under-reported its March 31 and July 31, 1987 figures for the Rural Physical Planning, Agricultural Marketing Development, and Health Management Improvement projects by approximately \$232,000. Mission officials were not aware of the discrepancies between reported expenditures and actual expenditures at the end-user projects.

The MOF was receiving local currency expenditure reports from the end-user projects that contained expenditures by both GOJ and external donors. The MOF requested a breakdown of funding sources to determine the allocation of actual expenditures, but when this proved impossible, actual expenditures were attributed 20 percent to the GOJ and 80 percent to external donors. Thus, the expenditure reports received by the USAID were inaccurate as to the amount of local currency expenditures. In addition, the quarterly expenditure reports of activities programmed under the PL 480 Title I program received by USAID/Jamaica were not certified annually by the GOJ accounting or audit authority as required by the sales agreements. A GOJ audit agency official claimed not to have seen these reports.

The Mission's local currency monitoring system had been established so as to ease its oversight burden on limited staff resources. It was entirely dependent on the integrity of the GOJ's own accounting and auditing systems for reporting actual project expenditures, even though the Mission had never formally assessed these systems nor verified the accuracy of GOJ reporting. USAID/Jamaica identified the monitoring of PL

480 Title I generated local currency uses as an internal control weakness in its latest Mission vulnerability assessment. Mission officials stated that prior to the RIG/A audit they had planned to perform an assessment of the accounting and auditing systems but, due to a lack of funds, had not initiated these actions.

In our opinion, the Mission could not rely on the GOJ's accounting and auditing systems to fulfill its monitoring responsibilities for approximately \$133 million in local currency activities for 1986 and 1987 without performing a formal systems review.

#### Management Comments

Mission officials took actions to develop a scope of work for contracting a local CPA firm to assess the Government of Jamaica's financial system; however, its execution has been delayed due to a lack of funding. Officials further stated that they are working with the Government of Jamaica to obtain certified annual local currency reports.

#### Inspector General Comments

Upon receipt of an executed contract with a CPA firm to perform a systems assessment, we will close recommendation 1(a). With regard to recommendations 1(b) and (c), Mission officials indicated they are working with the GOJ to receive periodic reports. Upon evidence of an agreement in this area, we will close these portions of the recommendation. The Mission's response states that the audit report was incorrect in its statement that the Controller's office reviews on a periodic basis the line ministries' procedures for reporting expenditures. The statement was quoted directly from the Mission's Action Plan, dated March 1987, and the audit report cited this source of information.

## 2. Sales Proceeds Were Not Deposited on Time

The Memorandum of Understanding under the 1986 Public Law 480 Title I sales agreement established that PL 480 Title I commodity sales proceeds were to be deposited within 120 days after the arrival of each commodity shipment. The Jamaica Commodity Trading Company (JCTC), the entity responsible for purchasing and selling the commodities, and collecting and depositing sales proceeds was not making timely deposits to the special account at the Bank of Jamaica (Bank). This same deficiency had been reported in a 1985 RIG/A/T report. Company officials claimed that deposits of sales proceeds were delayed because of collection problems and that deposits of sales proceeds were made as instructed by the Ministry of Finance. As a result, less than six percent of the PL 480 Title I commodity sales proceeds had been deposited within the 120-day timeframe established in the agreements, as of September 15, 1987.

### Recommendation No. 2

We recommend that USAID/Jamaica document the fact that it has established a system to monitor deposits of PL 480 Title I sales proceeds and to identify overdue deposits.

### Discussion

The Memorandum of Understanding dated January 15, 1986 stated that, "the proceeds from the sale of commodities financed under this agreement will be deposited by the Government of Jamaica (GOJ) in a special account in the Bank of Jamaica within 120 days of the arrival in Jamaica of each, respective commodity shipment." This timeframe was instituted after a previous RIG/A/T audit of the PL 480 Title I program (Audit Report No. 1-532-85-10, August 12, 1985) disclosed that long delays in the deposit of proceeds from sales of Title I commodities had been experienced. However, the sales agreement for 1987 did not include this timeframe because the Mission believed that JCTC understood that a system had been established in the 1986 sales agreement and did not consider it a substantive issue. The deposit deadline was put back in the sales agreement for 1988 signed prior to the audit.

As of September 15, 1987 JCTC had deposited the equivalent of \$39,929,201 in the special account at the Bank (Exhibit 1 provides additional data on sales proceeds). But only two deposits of \$2,256,312, less than 6 percent, had been deposited within 120 days after the arrival of the commodities. The remaining proceeds were deposited 140 to 296 days after the arrival in Jamaica of each commodity shipment.

According to a JCTC official, some of its customers were in arrears in making payments for credit sales of the imported commodities, resulting in collection problems and delays in depositing the funds in the special account. The official further stated that JCTC made deposits into the special account only when requested to do so by the Ministry of Finance.

USAID/Jamaica was aware of JCTC's record of making late deposits of sales proceeds and should have closely monitored those deposits. However, the USAID relied on the GOJ to monitor its own resources and did not follow up on shipping and receiving reports of PL 480 Title I commodities and monthly statements from the Bank to determine when delays had occurred in depositing sales proceeds. As a result, JCTC had the use of these funds for long periods of time because no policy existed to penalize it for those delays in excess of the established 120 days. By delaying deposits of sales proceeds for long periods, JCTC could obtain benefits by depositing the proceeds into its own interest-bearing bank accounts, thereby delaying the use of the funds for projects benefiting the rural poor.

#### Management Comments

Management officials agreed with establishing a system to monitor deposits of sales proceeds but did not agree with assessing late penalties on deposits over 120 days. They believed that assessing penalties did not make sense because of their sectoral approach to programming local currency and the fact that the USG does not assess penalties to countries that make late payments on their Title I loans.

#### Inspector General Comments

Upon receipt of the Mission's procedures to monitor deposits of sales proceeds, we will close this recommendation. We agree with the Mission's response on assessing penalties on late deposits and that portion of the recommendation has been deleted.

### 3. Cash Transfer Dollars Could Not Be Tracked

Statutory provisions implemented by A.I.D. policy guidance required that U.S. dollar cash transfers be deposited and payments be made from the separate account established by the recipient country to ensure that these monies would be used for approved purposes. However the agreement and amendments did not require that the dollars be accountable to their end use (foreign debt payment) and the Government of Jamaica was not obligated to document such end uses. As a result, the \$11.5 million cash transfer was used by the Bank of Jamaica to reimburse itself for debts that were previously paid and the dollars could not be tracked to their end-use.

#### Recommendation No. 3

We recommend that USAID/Jamaica request the Bank of Jamaica to substitute eligible debt repayment transactions for the \$11.5 million cash transfer from the designated separate account.

#### Discussion

A.I.D. policy guidance issued to Missions in cabled instructions on February 22, 1987 required all countries receiving cash transfers in excess of \$5 million, obligated after February 1, 1987, to deposit such dollars in a separate account. This requirement was imposed to ensure the propriety of dollar uses because of general concern over the potential for inappropriate uses and for diversion of cash transfers. The Bank of Jamaica notified USAID in a letter dated March 30, 1987 that a separate account had been opened with the Irving Trust Company, New York, which was designated to receive the cash transfer and from which specified foreign liabilities were to be paid.

Grant Agreement Amendment No. 1 between the United States government and the Government of Jamaica, dated April 2, 1987, provided a transfer of \$11.5 million; the foreign debt payments to the World Bank, Continental Telephone, Inter-American Development Bank and the Caribbean Development Bank were mutually agreed upon and specified in Project Implementation Letter (PIL) No. 2.

<u>Creditors</u>	<u>Loan Payment</u>	<u>Date Paid</u>	<u>Transferred From Separate Account</u>
World Bank	\$3.2	April 1, 1987	April 14, 1987
Continental Telephone	2.5	April 1, 1987	April 14, 1987
Inter-American Dev. Bank	1.8	March 19, 1987	April 14, 1987
Caribbean Dev. Bank	1.2	April 1, 1987	April 14, 1987
Int'l. Monetary Fund	2.8	July 24, 1987	July 24, 1987
	<u>\$11.5</u>		
	=====		

In order to meet an IMF standby agreement, the GOJ was to pay \$8.7 million <sup>1/</sup> from the cash transfer by the end of its fiscal year, March 31, 1987, and was relying upon the receipt of the cash transfer from the USG to do so. However, before the cash transfer could take place, unrelated legislation required that the USG certify that the GOJ and other countries were taking certain drug enforcement actions. USAID/Jamaica officials stated that because there was a delay in the State Department's submitting the required report to Congress, there was a delay in the cash transfer to the GOJ until after the end of the GOJ fiscal year.

The \$8.7 million in foreign debt was paid with separate GOJ-owned funds and the cash transfer of \$11.5 million made to the Bank of Jamaica's separate account on April 2, 1987 was used to reimburse those funds. Thus, A.I.D. cash transfer dollars were not actually used for their intended purpose; rather they were used to reimburse the GOJ for a prior debt payment. The U.S. dollars were transferred from the separate account at Irving Trust of New York to the GOJ regular account at the Federal Reserve Bank of New York on April 14, 1987 and commingled with other funds, losing their identity. The GOJ authorized the transfer of the remaining \$2.8 million of the \$11.5 million tranche from its regular account at the Federal Reserve Bank for servicing the IMF debt on July 23, 1987. However, the GOJ did not make the transfer of the \$2.8 million from its designated separate account at Irving Trust until July 24, 1987. The GOJ used its regular account rather than the special account to make payments for debt servicing, resulting in these dollars provided by the agreement not being traceable to their end use. Policy guidance issued on October 20, 1987, after the April 1987 cash transfer, requires recipients of such transfers to account for the disposition of dollars after disbursement by A.I.D. The guidance also specifies that funds will not be commingled with other funds.

The agreement did not specify that the dollars should be traceable to their end use, only that a separate account be established and funds be expended for approved uses. Bank officials commingled A.I.D. cash transfer dollars with funds in their regular account. The Bank of Jamaica had documentation available on debt payments from its regular account and was following its normal debt repayment procedure.

The February 1987 A.I.D. policy cable mentions Congressional concerns at the diversion of foreign exchange provided under A.I.D. cash transfer agreements and about recipient governments' accountability for funds. However, when funds were commingled into another account from the separate account, the specified cash transfer dollars lost their identity

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<sup>1/</sup> Representing the debt owed to the World Bank, Continental Telephone, Inter-American Development Bank and the Caribbean Development Bank.

and could not be traced to their end-use. The Bank of Jamaica, through its normal debt repayment procedures, did not intentionally circumvent the requirements and documentation was provided that showed debts were paid as mutually agreed upon with USAID/Jamaica. We will close this recommendation on the issuance of the final report.

#### Management Comments

Management officials considered this finding and recommendation a non-issue since the intent of the cash transfer agreement was effectively met.

#### Office of Inspector General Comments

This recommendation is being closed on issuance of the final report. However, we believe the Agency's February 1987 guidance to the field did not meet with Congressional intent when it required that separate dollar accounts be established. We are not pressing this issue in this context because we feel it would be counterproductive to U.S. Government - Government of Jamaica relations to do so at this time.

#### 4. Reports of Trust Fund Expenditures Were Not Prepared

The USAID/Jamaica-GOJ Trust Fund Agreement and A.I.D. Handbook 19 require that reports of trust fund expenditures be provided to the host country government. The Economic Support Fund agreements from 1982 to the present provided approximately \$12.5 million in local currency trust funds. USAID/Jamaica had used approximately \$9.6 million to defray program, operating and contract costs. USAID/Jamaica had not sent any expenditure reports on trust fund activities to the Government of Jamaica. Mission officials consulted with GOJ representatives on trust fund budgets, the proposed expenditures of trust funds, which they believed fulfilled A.I.D.'s reporting requirements. As a result, the Mission had not discharged its fiduciary responsibilities vis-a-vis the host government.

#### Recommendation No. 4

We recommend that USAID/Jamaica provide evidence that expenditure reports on the use of trust funds have been prepared and forwarded to the Government of Jamaica.

#### Discussion

Local currency trust funds were provided by the Government of Jamaica to USAID/Jamaica as part of A.I.D. cash transfer agreements. The governments agreed on the uses of the funds, mostly to offset the Mission's operating costs.

A.I.D. Handbook 19, the cash transfer agreements, and the Trust Fund Agreement, dated August 25, 1982, required periodic reporting on the Mission's use of trust funds. The agreement with the Government provided local currency funds in the name of the U.S. Disbursing Officer to cover the agreed upon costs of the U.S. Government to operate the economic assistance program in Jamaica. The costs agreed upon were program costs (i.e., technical feasibility studies, technology transfer, small scale development activities, etc.); administrative costs of the U.S. Mission (i.e., purchase of supplies and equipment, leasing of office and residential space, cost of utilities, salaries and other expenses of non-U.S. personnel, etc.); and contractor costs (i.e., local currency support for contractors implementing the U.S. economic foreign assistance program).

USAID/Jamaica had received approximately \$12.5 million in local currency, beginning with the first economic support fund agreement in 1982 and had spent approximately \$9.6 million during the same time period. The Mission provided proposed expenditure budgets when requesting additional funds from the GOJ and believed that this fulfilled its reporting requirements under the agreement. It did not report actual expenditures.

USAID/Jamaica, as trustee for GOJ funds, had not complied with the terms of the agreements to inform the GOJ of the disposition of \$9.6 million in local currency.

Management Comments

Mission officials agreed with the recommendation and upon clearance and approval, the recommended report will be sent to the Government of Jamaica and RIG/A/T.

Inspector General Comments

Upon receipt of this report, we will close this recommendation.

B. Compliance and Internal Controls

1. Compliance

The audit disclosed non-compliance with the Public Law 480 Title I Sales agreements regarding delays in depositing sales proceeds (Finding No. 2). Also, there was non-compliance with the Trust Fund Agreement under the Economic Support Fund program resulting from not submitting reports of trust fund expenditures to the Government of Jamaica (Finding No. 4).

2. Internal Controls

Finding No. 1 identified internal control weakness in USAID/Jamaica's monitoring of local currency uses by the Government of Jamaica. The Mission relied upon the Government's accounting and auditing systems without assessing their adequacy.

### C. Other Pertinent Matters

ESF cash transfer agreements required the GOJ to submit evidence of eligible import commodities from the U.S.A. in an amount at least equal to the amount of the A.I.D. cash transfers within a specified period of time. They also defined the types and levels of import attributions (how the dollars would be assigned to pay for eligible imports), the availability of documentation for audit, and reporting requirements. The Bank of Jamaica import attribution reports provided under (ESF Production and Employment) agreements IV through VI were not supported by readily available documentation. The Bank of Jamaica did not have a filing or a reporting system designed to produce accurate and timely information. USAID/Jamaica officials should request the Bank of Jamaica to maintain the records necessary to support any future attribution reports required.

USAID/Jamaica had approximately \$3.3 million in local currency trust funds remaining from the last economic support fund agreement that had not been deposited in interest-earning accounts. Actions had been taken by the Controller's office to determine the appropriateness of establishing the account; however, these actions were not finalized since the most recent request for an economic support program was denied. There was no certainty that additional trust funds would be made available through the ESF program, so Mission management decided against opening an interest-bearing account for the trust fund balance. However, after we presented this issue in the draft report, Mission officials opened an interest-bearing account under the control of the U.S. Disbursing Officer.

AUDIT OF USAID/JAMAICA  
ECONOMIC SUPPORT FUND AND  
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PART III - EXHIBIT AND APPENDICES

ARRIVAL OF PL-450 TITLE I COMMODITIES  
AND DEPOSIT OF SALES PROCEEDS  
Finding No. 2

FY 1986 COMMODITY	INVOICE #	V A L U E		CONVERSION RATE	NAME OF VESSEL	DATE OF ARRIVAL	DEPOSIT OF SALES PROCEEDS	# DAYS BETWEEN ARRIVAL AND DEPOSIT	# DAYS DEPOSIT DELAYED	
		US\$	J\$							
DWS Wheat	774792	\$ 1,046,590	J\$ 5,745,777	5.49	Loveland	4-9-86	1/15/87	276	156	
	774792A	1,042,411	5,733,261	5.50	Loveland	5-1-86	1/15/87	254	134	
	503921	1,197,916	6,564,578	5.48	Wayne	6-7-86	2/27/87	260	140	
	778434	1,183,685	6,510,265	5.50	Sunflower	6-27-86	3/31/87	274	154	
SRW Wheat	0805700	1,055,007	5,802,539	5.50	Loveland	7-17-86	3/25/87	248	128	
	22293	1,076,991	5,912,682	5.49	Sunflower	5-19-86	2/27/87	278	158	
	771762	114,172	625,664	5.48	Loveland	6-9-86	2/27/87	258	138	
	774862	740,116	4,055,837	5.48	Loveland	6-9-86	2/27/87	258	138	
	774479	923,073	5,058,438	5.49	K.Sheridan	9-18-86	3/25/87	187	67	
	775367	781,488	4,298,186	5.50	M.J.Sheridan	7-14-86	3/25/87	251	131	
	80566	804,383	4,424,106	5.49	J.Sheridan	8-6-86	3/31/87	237	117	
	5700457	762,328	4,192,802	5.50	K.Sheridan	10-19-86	3/31/87	162	42	
	5700514	762,327	4,193,052	5.50	J.Sheridan	11-7-86	3/31/87	144	24	
	5700629	1,142,965	6,297,739	5.50	M.J.Sheridan	12-11-86	3/31/87	110	-	
	5700697	1,113,617	6,136,031	5.51	J.Sheridan	12-27-86	3/31/87	94	-	
	58-913	733,898	4,036,442	5.49	Sunflower	8-7-86	3/31/87	236	116	
	17944	1,070,455	5,887,502	5.50	Amer.Gulf II	2-22-86	8/19/86	177	57	
	770502	1,046,855	5,757,705	5.50	Amer.Gulf II	4-13-86	1/15/87	272	152	
	Sub-total		16,598,277	91,232,606						
	Corn Sorghum	22297	395,196	2,173,576	5.50	Corah Ann	5-3-86	2/27/87	294	174
22294		431,284	2,372,062	5.50	St. Ann's Bay	5-13-86	2/27/87	284	164	
00157		503,788	2,770,836	5.50	St. Ann's Bay	6-28-86	3/25/87	267	147	
00160		585,864	3,222,250	5.50	Hermania	6-28-86	3/25/87	266	146	
22334		324,224	1,793,230	5.49	Corah Ann	8-5-86	3/25/87	230	110	
22744		383,521	2,101,695	5.48	Corah Ann	6-9-86	3/25/87	286	166	
5215		542,989	2,980,959	5.50	Hermania	6-13-86	3/25/87	282	162	
6737		501,472	2,758,100	5.50	St. Ann's Bay	7-29-86	3/25/87	236	116	
771172		678,502	3,696,127	5.49	Corah Ann	9-26-86	3/25/87	179	59	
777451		710,997	3,923,405	5.50	Hermania	10-21-86	3/25/87	154	34	

EXHIBIT 1  
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ARRIVAL OF PL-480 TITLE I COMMODITIES  
AND DEPOSIT OF SALES PROCEEDS

Finding No. 2

FY 1986 COMMODITY	INVOICE #	V A L U E		CONVERSION RATE	NAME OF VESSEL	DATE OF ARRIVAL	DEPOSIT OF SALES PROCEEDS	# DAYS BETWEEN ARRIVAL AND DEPOSIT	# DAYS DEPOSIT DELAYED
		US\$	J\$						
	778281	614,189	3,378,038	5.49	St. Ann's Bay	10-6-86	03/25/87	169	49
	90579	401,144	2,198,271	5.50	Harwenia	9-2-86	03/25/87	203	83
	90578	282,282	1,546,906	5.50	Corah Ann	9-1-86	03/31/87	210	90
	S00961	513,403	2,823,717	5.50	St. Ann's Bay	2-21-86	08/19/86	178	58
	S00962	595,842	3,277,133	5.50	Balsa 7	2-23-86	08/19/86	176	56
	56-1055	422,143	2,313,346	5.48	Herwenia	4-1-86	01/15/87	284	164
	56-1046	494,558	2,710,179	5.48	St. Ann's Bay	3-26-86	01/15/87	289	169
	22282	484,215	2,663,181	5.50	St. Ann's Bay	4-21-86	01/15/87	284	164
Sub-Total		8,862,604	48,693,011						
Rice	25036	991,451	5,443,067	5.49	Herwenia	5-16-86	02/27/87	281	161
	25193	824,291	4,517,114	5.48	St. Ann's Bay	6-8-86	03/25/87	287	167
	25-260	668,565	3,683,794	5.50	Barge P 32	7-15-86	03/25/87	250	130
	2659112	603,393	3,318,660	5.50	Plymouth	10-17-86	03/25/87	158	38
	8095-R	202,496	1,113,726	5.50	Plymouth	10-17-86	03/25/87	158	38
	8096-R	205,238	1,128,807	5.50	Plymouth	10-17-86	03/31/87	164	44
	917-291	746,893	4,115,383	5.48	Barge P 230	8-23-86	03/31/87	218	98
	9962-A	202,122	1,109,648	5.49	Loveland	9-18-86	03/31/87	193	73
	9963-B	202,122	1,109,648	5.49	Loveland	9-18-86	03/31/87	193	73
	9964-C	208,433	1,144,299	5.49	Loveland	9-18-86	03/31/87	193	73
	9965-D	208,433	1,144,298	5.49	Loveland	9-18-86	03/31/87	193	73
	103/326	728,953	4,009,241	5.50	Sea Arrow	3-19-86	08/19/86	150	30
Part Payment	103/327	508,557	2,797,063	5.50	Sea Arrow	3-19-86	08/19/86	150	30
	103/032	405,659	2,235,182	5.51	Corah Ann	3-10-86	08/19/86	159	39
	103/03	720,538	3,970,163	5.51	Corah Ann	3-10-86	08/19/86	159	39
	103/327	74,605	410,329	5.50	Sea Arrow	3-19-86	01/15/87	296	176
	24705	568,024	3,112,769	5.48	Corah Ann	4-2-86	01/15/87	283	163
	9-2191	376,108	2,061,071	5.48	Corah Ann	4-2-86	01/15/87	283	163
Sub-total		8,445,861	44,424,262						
Total FY-86		132,906,762	716,349,879						

ARRIVAL OF PL-480 TITLE I COMMODITIES  
AND DEPOSIT OF SALES PROCEEDS

Finding No. 2

FY 1987 COMMODITY	INVOICE #	V A L U E		CONVERSION RATE	NAME OF VESSEL	DATE OF ARRIVAL	DEPOSIT OF SALES PROCEEDS	# DAYS BETWEEN ARRIVAL AND DEPOSIT	# DAYS DEPOSIT DELAYED
		US\$	J\$						
Wheat	S700845	\$ 1,118,720	J\$ 6,152,959	5.50	K.Sheridan	2/24/87	09/15/87	201	81
	S700913	1,162,608	6,394,344	5.50	M.J.Sheridan	3/22/87	09/15/87	173	53
	59935	983,758	5,410,670	5.50	Grain Transp.	3/31/87	09/15/87	164	44
	770502	947,915	5,213,534	5.50	Amer Gulf IV	4/7/87	09/15/87	158	38
Sub-Total		<u>4,213,001</u>	<u>23,171,507</u>						
Corn	771172A	271,890	1,498,113	5.50	Corah Ann	3/17/87	09/15/87	178	58
	80935	391,930	2,155,618	5.50	Heremia	4/6/87	09/15/87	159	39
	22615	291,036	1,600,697	5.51	Corah Ann	4/21/87	09/15/87	144	24
Sub-Total		<u>954,856</u>	<u>5,254,428</u>						
Rice	S-2249A	666,929	3,668,109	5.50	Barge P-40	3/21/87	09/15/87	174	54
	9061	183,567	1,011,456	5.51	Barge OTC 40	4/25/87	09/15/87	140	20
	9061-A	4,086	22,511	5.50	Barge OTC 40	4/25/87	09/15/87	140	20
Sub-Total		<u>854,582</u>	<u>4,702,076</u>						
Total FY-87		\$ 6,022,439	J\$33,128,011						
Grand Total		<u>\$39,929,201</u>	<u>J\$219,477,890</u>						

MEMORANDUM

APPENDIX 1  
Page 1 of 4

DATE: April 15, 1988  
FROM: Myron Golden, Acting Director - USAID/Jamaica  
SUBJECT: MISSION COMMENTS ON DRAFT AUDIT REPORT OF USAID/JAMAICA'S ECONOMIC SUPPORT FUND AND PL 480 TITLE I  
TO: Ginage Gothard, RIG/A/T

Following are USAID/Jamaica's comments on the subject report.

Recommendation No. 1

We recommend that USAID/Jamaica provide evidence that actions have been taken to:

- a. formally assess the adequacy and reliability of the Government of Jamaica's accounting and auditing systems utilized to account for local currency programs and activities and make quarterly reports on receipt and disbursement activity under A.I.D.'s Economic Support Fund and PL 480 Title I programs; and,
- b. request the Government of Jamaica's audit authority to provide certified annual local currency status reports.

Response to Recommendation No. 1.a.

Mission has developed a scope of work for contracting a local CPA firm to carry out an assessment of the GOJ's financial management system. However, this assessment has been on hold since the first quarter of FY 1988 pending availability of funds. Once funds become available, the execution of this assessment should satisfy the recommendation.

Response to Recommendation No. 1.b.

Mission is working with the GOJ to get certified annual local currency status reports based on the GOJ's regular budgetary and reporting systems.

*RIG/A Rec'd April 21, 1988*  
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Listed below are suggested changes/corrections to statements included in section 1 of the report.

Page 6 of the audit report states that the government's accounting and auditing systems were unreliable. Mission suggests the wording be changed as this has not been substantiated by a thorough review.

Page 8 states that the Mission Controller's Office reviews on a periodic basis the line ministries' procedures for reporting actual expenditures. This statement is incorrect. These reviews relate to the Line Ministries accounting and reporting on USAID projects and not to their systems and procedures relating to counterpart funds.

The middle paragraph on page 9, beginning with sentence "Reliance on the GOJ's..." to the end of the paragraph is not true and should be deleted. Mission did not assume that the GAO evaluation constituted an assessment of the accounting and auditing systems of the GOJ. Prior to the arrival of RIG Team, Mission had been planning to carry out an assessment in line with the requirements of the revised Local Currency Guidance. However, due to lack of funds, this had not been carried out.

#### Recommendation No. 2

We recommend that USAID/Jamaica provide documentation that it has established a system to monitor deposits of sales proceeds and to identify those deposits due after 120 days. This tracking system should include procedures to assess penalties on late deposits for deposit in the Public Law 480 Title I special account.

#### Response to Recommendation No. 2

The first aspect of this recommendation is being dealt with. USAID is now developing the recommended system to monitor deposits of sales proceeds and to identify those deposits due after 120 days. Spreadsheets for this analysis are being designed and tested. Where there are gaps in information available to USAID, further data is being gathered from GOJ agencies. The second part of the recommendation is more difficult. The assessment of penalties on late deposits is not appropriate as a management tool for this kind of local currency program. If the RIG penalty is implemented, the GOJ would be penalized for late deposit into a GOJ account. This is not a loan repayment to the USG and even late payment of Title I loans do not incur penalties. Penalties are an inflexible and burdensome management tool when dealing with Third World governments with limited financial resources. This local currency programming system is a joint programming exercise where the USG's involvement is indirect and not substantial. The Mission is following Agency guidance to move to sectoral programming of local currencies, to reduce our level of involvement in the mechanics of local currency movements. The proposed penalty makes no sense in this kind of programming and should not be considered especially because penalties are not part of more critical Title I procedures for GOJ payment obligations to the USG.

Recommendation No. 3

We recommend that USAID/Jamaica, in conjunction with the Ministry of Finance, provide evidence that procedures have been established to ensure that the local currency equivalent of a) the U.S. dollar cost of the Title I commodities, as well as b) any local currency not used or committed during a prior year's program, be expeditiously programmed or re-programmed to support economic development objectives.

Response to Recommendation No. 3

These procedures are being improved in association with the tracking system previously discussed in Recommendation No. 2, but they have already been part of the regular Title I management system in place over several years. However, the auditors are not describing a real problem. The auditors' description of the problem is incorrect in that they do not have the right figures. They report on page 14 of the draft that \$5 million was set aside for Section 108 funding when in fact the FY 1987 Agreement as finally amended set aside \$9.1 million out of \$36 million for Section 108 funding. Therefore, the auditors estimate of the GOJ's local currency programming obligation has to be reduced by \$4.1 million and the supposed \$1.9 million shortage that the auditors say does not exist at all. If one further reviews the commodity programmed in FY 1987 which was carried into the FY 1988 program because of late shipments, the GOJ's local currency program obligation in this time frame is further reduced by that amount or \$600,000. The GOJ and USAID have been programming the appropriate level of local currency generations. Because the RIG background analysis is based on incorrect figures, it does not describe a problem. Without a problem to address, Recommendation No. 3 should be deleted.

Recommendation No. 4

We recommend that USAID/Jamaica request the Bank of Jamaica to substitute eligible debt repayment transactions for the \$11.5 million cash transfer from the designated separate account.

Response to Recommendation No. 4

The draft report states that this recommendation will be closed upon issuance of the final report and therefore the matter is a non-issue.

Second paragraph on page 17: PIL No. 2 referred only to the first four items in the list.

Recommendation No. 5

We recommend that USAID/Jamaica provide evidence that expenditure reports on the use of trust funds have been prepared and forwarded to the Government of Jamaica.

Response to Recommendation No. 5

USAID/Jamaica has prepared an expenditure report on all disbursements from inception through September 30, 1987. Upon clearance and approval, the report will be sent to the Permanent Secretary, Ministry of Finance. A copy of the documents will be forwarded to RIG at that time.

Recommendation No. 6

We recommend that USAID/Jamaica provide evidence that trust funds have been deposited in an interest earning account.

Response to Recommendation No. 6

The comments on pages 23 and 24 of the draft audit report are misleading in that they fail to state that USAIDs had an option as to opening an interest earning account. State 298449, dated 09/24/87, suggested to Missions that this could be done. The Mission took the initial steps to establish the interest bearing account but did not follow through for two reasons. First, the Mission does not have an ESF cash transfer program for FY 88 and therefore no additional trust funds would be forthcoming in the near term. Second, the trust funds deposited into the USDO account are in an unfunded status and used by the USDO for local Jamaican dollar disbursements until such time as they are required for trust fund expenditures. Therefore, while the audit report cites an estimated amount of lost interest earned, it fails to take into account the purchase/borrowing by Treasury to establish the local interest bearing instrument. The U.S. Disbursing Office purchased J\$13 million from a New York Bank at a cost of approximately US\$2.3 million. When one considers the above, USAID/Jamaica has followed proper cash management procedures which is contrary to the comments contained in the last sentence on page 24 of draft audit report.

To close the recommendation, an interest bearing instrument was established on April 15, 1988. Documentation to support actions taken to establish the account are enclosed as Attachment I.

Based on actions taken, USAID/Jamaica recommends that Recommendation No. 6 be closed.

Attachment II is a copy of the draft audit report with the Mission Director's comments.

Atts: a/s

cc: OPDS, B. Cypser  
ARDO, S. French  
CCNT, R. Leonard

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List of Report Recommendations

Recommendation No. 1

We recommend that USAID/Jamaica provide evidence that actions have been taken to:

- a. formally assess the adequacy and reliability of the Government of Jamaica's accounting and auditing systems utilized to account for local currency programs and activities
- b. receive quarterly reports on receipt and disbursement activity in a timely manner under A.I.D.'s Economic Support Fund and Public Law 480 Title I programs; and,
- c. request the Auditor General's Office of the Government of Jamaica or the Government's accounting authority to provide certified annual local currency status reports.

Recommendation No. 2

We recommend that USAID/Jamaica document the fact that it has established a system to monitor deposits of PL 480 Title I sales proceeds and to identify overdue deposits.

Recommendation No. 3

We recommend that USAID/Jamaica request the Bank of Jamaica to substitute eligible debt repayment transactions for the \$11.5 million cash transfer from the designated separate account.

Recommendation No. 4

We recommend that USAID/Jamaica provide evidence that expenditure reports on the use of trust funds have been prepared and forwarded to the Government of Jamaica.

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