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AUDIT OF
USAID/DOMINICAN REPUBLIC
PUBLIC LAW 480 TITLE I PROGRAM

Audit Report No. 1-517-88-17
April 28, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT

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April 28, 1988

MEMORANDUM

TO: USAID/Dominican Republic Director, Thomas Stukel

Coinage N. Gothard

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

SUBJECT: Audit of USAID/Dominican Republic PL 480 Title I Programs

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of USAID/Dominican Republic PL 480 Title I 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 three recommendations. Recommendation No. 1b, is considered closed on final report issuance and requires no further action. Recommendation Nos. 1a, 2a, 2b, and 3 are considered resolved but cannot be closed until completion of planned corrective actions. Please advise me within 30 days of any additional actions taken to implement recommendation Nos. 1a, 2a, 2b, and 3.

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

EXECUTIVE SUMMARY

Title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 480) authorizes the President to sell surplus agricultural commodities to friendly countries. These food sales are financed by concessional loans under favorable terms to the recipient countries. The overall objective of Public Law 480 Sales Agreements is to stimulate in developing countries self-sustaining economic growth that promotes international peace and stability.

The Public Law 480 Title I Program in the Dominican Republic from fiscal year 1984 to 1986 had generated the equivalent of US$130.9 million in local currency to be used in support of the USAID development strategy, which aims to achieve the objectives of economic adjustment and stabilization; foreign investment and export promotion; agriculture diversification; and supporting physical, social and institutional infrastructure development.

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a financial and compliance audit of the Dominican Republic's Public Law 480 Title I programs for fiscal years 1984-1986. The overall objective of the audit was to determine whether or not local currencies were being generated and used in accordance with the respective sales agreements and if the local currencies were effectively, efficiently and economically used toward achieving the objectives of the self-help activities they financed.

The audit found that management and operational controls established for the procurement and sale of Public Law 480 Title I commodities were not adequate to ensure that local currency proceeds were collected on time for project implementation. In addition, compliance with some program requirements was lacking.

Fifty-eight projects had been approved for financing with local currency proceeds generated from the sale of commodities imported under the Public Law 480 Title I program. These projects were to be implemented through 16 public government agencies, 10 private and public sector institutions for private sector programs and 6 private voluntary organizations. Local currency projects were mainly directed toward the development of the rural areas in the Dominican Republic.

This report contains three findings. A review of the Technical Secretariat of the Presidency's Commercialization Division, which is responsible for the procurement and sale of Public Law 480 commodities, as well as the collection of the corresponding local currency sales proceeds, indicated that one person was responsible for virtually all functions. Also, contrary to provisions in the Memorandum of Understanding and Sales Agreements, the Technical Secretariat of the Presidency had agreed to credit terms with local importers more lenient than those established in the governing agreements.

Finally, local currency resulting from the sale of Public Law 480 Title I commodities was deposited in a non-interest-bearing account. As of September 30, 1987 over US$12.6 million equivalent in local currency sales proceeds lay idle in a non-interest-bearing account at the Government of the Dominican Republic Central Bank.

A.I.D. Handbook 19, Appendix 1D calls for the establishment and maintenance of adequate internal controls, including appropriate segregation of an organization's duties and responsibilities to minimize fraud, waste and abuse of resources and mismanagement of programs. The Technical Secretariat of the Presidency's Commercialization Division, vested virtually all the responsibilities in one individual, the head of the Commercialization Division. Prior to September 1987, this individual coordinated proposed bid offers with United States suppliers and procurement agencies, selected importers in the Dominican Republic, prepared domestic importers' invoices, and often received importers' payments. This was due to the division's organizational structure and the limited staff resources assigned to it. This lack of checks and balances leaves development resources inadequately protected from possible mismanagement. We recommend that a local certified public accounting firm be contracted to review and analyze the segregation of duties and responsibilities currently in place at the Secretariat and to perform a financial review of the fiscal year 1986 Public Law 480 commodity program. USAID/Dominican Republic concurred with the finding. Part b of recommendation No. 1 is considered closed upon issuance of this report. Part a. will be closed when a technical assistance contract is signed.

Second, the Public Law 480 Title I agreement for fiscal year 1986 required local importers to pay the full price of the commodities not later than 60 days after their receipt. For commodities imported under the Public Law 480 Title I agreement for fiscal year 1986, the Technical Secretariat of the Presidency agreed to credit terms with the local importers more lenient than those established in the agreements, allowing periods of more than nine months for payment. Additionally, invoices were usually prepared up to five months after commodities had been received and disbursed. Although responsible for the oversight of local currency generations, USAID/Dominican Republic was not fully aware of these problems. As a result, of the total $40.8 million (equivalent) to be generated under the program, only $7.9 million was paid by local importers within the time period required in the agreement, and was available on time for the programming and implementation of new projects. Rice import proceeds accounted for 94 percent of the uncollected balance as of September 30, 1987. We recommend that clear monitoring and financial oversight responsibilities be established over the Public Law 480 Title I local currency generations program, and outstanding balances be collected from local importers. USAID/Dominican Republic agrees with the recommendation and will include penalty clauses in future agreements. This recommendation will be closed upon receipt of a Mission Manual Order and evidence of payment of uncollected balances.

A.I.D. Policy Determination No. 5 encourages the deposit of Public Law 480 Title I sales proceeds in interest-bearing accounts in order to conserve their value for the high priority development activities they are destined to finance. Because the interest-bearing accounts issue was not contemplated in the sales agreements or subsequent memoranda of understanding, Title I commodity sales proceeds in the Dominican Republic were deposited in a non-interest-bearing account at the Central Bank, where funds remained for a long period of time without earning interest. As of September [illegible] 1987, for example, over $42.6 million (equivalent) in past Title I sales proceeds lay idle in the Government of the Dominican Republic Central Bank. Assuming an annual interest earnings of 15 percent, about $500,000 equivalent per month in interest earnings could be earned if these funds were deposited in an interest-bearing account. We recommend that procedures be established whereby Public Law 480 Title I local currency sales proceeds can be placed in an interest-bearing account. USAID/Dominican Republic stated that it is in complete compliance with applicable guidance and that it will submit a GODR letter on this matter. The recommendation will be closed upon receipt of a written statement from the GODR.

Office of the Inspector General

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USAID/DOMINICAN REPUBLIC
PUBLIC LAW 480 TITLE I PROGRAM

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PART I - INTRODUCTION

A. Background

Title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 480) authorizes the President to sell surplus agricultural commodities to friendly countries. These food sales are financed by concessional loans under favorable terms to the recipient countries. In return for this assistance, recipient governments agree to use the local currency earned from the sale of the commodities for development purposes. The uses of the local currency are jointly agreed upon by A.I.D. and the recipient government. However, in accordance with A.I.D.'s Policy Determination No. 5, the extent of A.I.D.'s involvement in programming the use of local currency may vary from country to country.

The overall objective of Public Law (PL) 480 Sales Agreements is to stimulate in developing countries self-sustaining economic growth that promotes international peace and stability. The objectives are to enable countries to become self-sufficient in food, assure a reliable food supply for their populations, and contribute to economic growth.

The Dominican Republic has participated in the Public Law 480 Title I program since 1977, and the system for programming and monitoring the use of Title I local currency has evolved over time. Before 1985, Title I commodity sales were managed by the National Institute for Price Stabilization, and local currencies were programmed for self-help activities. In 1985, all responsibilities for the sale of commodities and the monitoring of local currency projects was transferred to a coordinating unit within the Technical Secretariat of the Presidency.

All proceeds resulting from the sale of commodities financed under this agreement are to be deposited in a special account in the Government of the Dominican Republic (GODR) Central Bank to be used in support of the USAID development strategy, which aims to achieve the objectives of economic adjustment and stabilization, foreign investment and export promotion; agricultural diversification, and supporting physical, social and institutional infrastructure development.

A team composed of the Mission's local currency staff and the Technical Secretariat of the Presidency (STP) officials jointly programs PL 480 sales proceeds. After individual local currency projects are approved, STP authorizes the Central Bank, with the approval of A.I.D., to disburse funds to each individual project.

The PL 480 Title I Program in the Dominican Republic from fiscal year 1984 to 1986 had generated the equivalent of US$130.9 million in local currency that was available for development projects as follows:

Fiscal Year	Commodity Values (US Dollar)	Commodity Sales Proceeds (US Dollar Equivalent)1/	Amount Programmed (US Dollar Equivalent)2/	Amount Approved (US Dollar Equivalent)2/	Amount Released (US Dollar Equivalent)
1984	$27,717,859	$ 57,841,670	$ 58,941,000	$ 55,767,320	$49,167,135
1985	37,703,920	32,228,452	31,928,617	31,390,971	25,939,063
1986	29,745,419	40,808,047	38,700,000	11,974,421	807,755
	$95,167,198	$130,878,169	$129,569,617	$99,132,712	$75,913,953

Using these resources, a total of 58 development projects was approved to be implemented through 32 Government of Dominican Republic institutions (public and private). (See Exhibit 1.)

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a financial and compliance audit of the Dominican Republic's Public Law 480 Title I programs for fiscal years 1984-1986. The audit was carried out from June 16, 1987 to November 23, 1987. The overall objective of the audit was to determine whether or not local currencies were being generated and used in accordance with the respective sales agreements and if the local currencies were effectively, efficiently and economically used toward achieving the objectives of the self-help activities they financed.

To accomplish the audit objectives, field work included reviews of pertinent files, records and reports; interviews with officials and staff at USAID/Dominican Republic, the U.S. Department of Agriculture, the U.S.

1/ Throughout this report, Title I local currency is converted to dollars at the exchange rate used to generate the local currency through the sale of Title I commodities as follows:

for 1984 - DR$1.00 = US$1
1985 - DR$3.11 = US$1 (Year Average)
1986 - DR$3.00 = US$1 (Average of rates in effect at the time CCC paid U.S. exporters.)

2/ Include CUP payments and other non project activities.

Embassy, the Government of the Dominican Republic Ministry of Finance, Central Bank and Reserve Bank, the Technical Secretariat of the Presidency, various implementing agencies and local importers. The audit covered the PL 480 Title I program for fiscal years 1984-1986, with total commodity loans of $95.2 million. The sale of commodities imported had generated the equivalent of $130.9 million in local currency, of which we reviewed the equivalent of $42.7 million in disbursements to implementing agencies for self-help projects; total local currency generations for 1986 for the equivalent of $40.8 million for commodities imported, and other non project activities for the equivalent of $17.11 million. The internal control review was limited to the issues covered in this report. The audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

The audit found that management and operational controls established for the procurement and sale of Public Law 480 Title I commodities were not adequate to ensure that local currency proceeds were collected on time for project implementation. In addition, compliance with some program requirements was lacking.

Fifty-eight projects had been approved for financing with local currency proceeds generated from the sale of commodities imported under the PL 480 Title I program. These projects were to be implemented through 16 public government agencies, 10 private and public sector institutions for private sector programs and 6 private voluntary organizations. Local currency projects were mainly directed toward the development of the rural areas in the Dominican Republic.

This report contains three findings. A review of the Technical Secretariat of the Presidency's (STP) Commercialization Division, which is responsible for the procurement and sale of PL 480 commodities as well as the collection of the corresponding local sales proceeds, indicated that one person was responsible for virtually all functions.

Also, contrary to provisions in the Memorandum of Understanding and Sales Agreements, the Technical Secretariat of the Presidency had agreed to credit terms with local importers more lenient than those established in the governing agreements.

Finally, local currency resulting from the sale of PL 480 Title I commodities was deposited in a non-interest-bearing account. As of September 30, 1987, over US$42.6 million equivalent in local currency sales proceeds lay idle in a non-interest-bearing account at the GODR Central Bank.

This report recommends that: a local CPA firm be contracted to review and analyze the segregation of duties and responsibilities currently in place at STP and to perform a financial review of the fiscal year 1986 PL 480 commodity program; clear monitoring and financial oversight responsibilities be established over the PL 480 Title I local currency generations program and accrued interest be collected from local importers; and takes steps to encourage the GODR to place PL 480 Title I local currency sales proceeds in an interest-bearing account.

A. Audit Findings and Recommendations

1. Duties and Responsibilities for the Procurement and Sale of PL 480 Commodities Needed to Be Segregated

A.I.D. Handbook 19 Appendix 1D calls for the establishment and maintenance of adequate internal controls, including appropriate segregation of an organization's duties and responsibilities to minimize fraud, waste and abuse of resources and mismanagement of programs. The Technical Secretariat of the Presidency's Commercialization Division, vested virtually all the responsibilities in one individual, the head of the Commercialization Division. Prior to September 1987, this individual coordinated proposed bid offers with United States suppliers and procurement agencies, selected importers in the Dominican Republic, prepared domestic importers' invoices, and often received importers' payments. This was due to the division's organizational structure and the limited staff resources assigned to it. This lack of checks and balances left development resources inadequately protected from possible mismanagement.

Recommendation No. 1

We recommend that USAID/Dominican Republic:

a. contract with a reputable local Certified Public Accounting firm to review and analyze the segregation of duties and responsibilities currently in place at the Technical Secretariat of the Presidency's Commercialization Division, and recommend appropriate changes in lines of authority in order to strengthen the Division's system of internal controls; and

b. contract with a local Certified Public Accounting firm to perform a financial review of the fiscal year 1986 Public Law 480 Commodity Sales program.

Discussion

A.I.D. Handbook 19 Appendix 1D prescribes policies and assigns responsibilities for developing, evaluating, improving as necessary, and reporting on the internal control systems for A.I.D. programs and administrative fuctions. It also states that an organization's duties and responsibilities be aligned functionally and that no two functions be performed by the same individual. The establishment and maintenance of adequate internal controls is essential to the minimization of fraud, waste and abuse of resources and mismanagement of programs.

A review of the duties and responsibilities of the Technical Secretariat of the Presidency's (STP) Commercialization Department, responsible for execution of the Government of the Dominican Republic (GODR) Commodity Sales program, found that, prior to September 1987, the head of the

Division was personally performing almost all the division's functions with limited financial oversight provided by other STP departments and the Mission. These duties included coordinating the selection of U.S. suppliers with the U.S. Agriculture Department and a Procurement Service Agency, awarding commodity contracts to domestic suppliers, accounting for sales transaction data, and collection of sales proceeds from domestic importers.

Although domestic importers' checks were made payable to the Technical Secretariat of the Presidency (STP), the checks were in fact delivered to the head of the Commercialization Division who was responsible for making these deposits in STP's general account at the Banco de Reservas. Later, this same individual arranged for the transfer of these funds to the GODR's Central Bank PL 480 account.

The Head of the Commercialization Division was also responsible for maintaining records of the dates of payments and outstanding balances owed by domestic importers of PL 480 commodities. In 1986, local currency sales proceeds had been budgeted for strengthening the coordinating unit within STP. However, additional staff had not been added nor had there been any studies carried out to improve office operations, and about one fourth of the resources budgeted for 1986 had been returned unused. Prior to September 1987, the Commercialization Division Director was assisted by a secretary primarily in a supporting role with no other staff assigned in a review function. After August 1987, approval authorities were somewhat realigned, with the Chief of the Audit Office giving final approval for all invoices, but the Director of the Commercialization Division was still performing essentially the same first-line functions. Furthermore, although all commodity sales under the 1986 agreement had been completed, a review of the 1986 sales program had not been made by the USAID/DR Controller's Office. In contrast, reviews of the 1984 and 1985 agreements had been made.

It is our opinion that STP's Commercialization Division should have more adequate checks and balances in place, and that the responsibilities of the Division need to be adequately segregated to include at least separation of procurement from sales functions, and accounting for sales transactions from collection of sales proceeds.

This lack of checks and balances and inadequate segregation of duties could result in the mismanagement or improper manipulation of resources. Examples of situations which have occurred involve unauthorized extensions of payment periods for importers, which increased the time needed to complete the programming of local currency sales proceeds. This delayed the implementation of needed development projects.

Management Comments

USAID/DR concurred with the audit finding and recommendation, and stated:

1.a) USAID/DR and the TSP [STP]are finalizing the design of a comprehensive technical assistance contract with Price Waterhouse and Co., International (PW & Co) for the CU [Coordinating Unit].

A complete review (and suggestions for improvement) of the Commercial Division will be included in the Scope of Work. This recommendation can be closed upon receipt by RIG of a copy of the signed contract with PW & Co.

1.b) Financial review of the fiscal year 1986 PL 480 Commodity Sales Program has been completed by the Mission. A copy of the report is attached and the working papers are available at USAID/DR. USAID/DR therefore requests that this recommendation be closed.

Office of the Inspector General Comments

We will consider closing recommendation 1(a) when a signed copy of the Technical Assistance Contract for the Coordinating Unit is forwarded to RIG/A/T. Recommendation 1(b) is closed upon issuance of this report.

2. Credit Terms for Local Importers Were More Lenient Than Those Established in the Fiscal Year 1986 Agreement

The PL 480 Title I agreement for fiscal year 1986 required local importers to pay the full price of the commodities not later than 60 days after their receipt. For commodities imported under the PL 480 Title I agreement for fiscal year 1986, STP agreed to credit terms with the local importers more lenient than those established in the agreements, allowing periods of more than nine months for payment. Additionally, invoices were usually prepared up to five months after commodities had been received and disbursed. Although responsible for the oversight of local currency generations, USAID/DR was not fully aware of these problems. As a result, of the total $40.8 million (equivalent) to be generated under the program, only $7.9 million was paid by local importers within the time period required in the agreement, and was available on time for the programming and implementation of new projects. Rice import proceeds accounted for 94 percent of the uncollected balance as of September 30, 1987.

Recommendation No. 2

We recommend that USAID/Dominican Republic:

a. establish clear monitoring and financial oversight responsibilities over Public Law 480 Title I local currency generations to avoid deviations from procedures established in the agreements; any such deviations (such as late deposits) should be approved in advance by USAID/Dominican Republic and appropriate penalties assessed and collected; and

b. obtain evidence that the Technical Secretariat of the Presidency has collected all outstanding balances from local importers.

Discussion

The PL 480 Title I agreement for fiscal year 1986 required STP to deposit an amount not less than the local currency equivalent of the U.S. dollar value of the commodities in a special account at the Central Bank no later than 180 days after the publication of the agreement in the Dominican Government's official publication, La Gaceta. It also required STP to request importers to open Letters of Credit in a local Dominican bank for the full local currency purchase price of the commodities plus transportation and insurance. The agreement established that these Letters of Credit should be payable not later than 60 days from the receipt of the commodities.

After the commodity agreement and memorandum of understanding between the GODR and USG were signed, STP was required to identify the importers of commodities purchased under the program and their allocations, and to develop specifications regarding commodities to be purchased. On August

18, 1986 the USG and the GODR entered into a Sales Agreement for the importation of $30 million dollars in PL 480 commodities. Even though this agreement required STP to negotiate commodities to be purchased with local importers, these negotiations took place long after the commodities had arrived. Additionally, it took STP up to five months to bill local importers for the commodities distributed (see Exhibit 2). For example, for the second importation of soy bean oil the USG-GODR agreement was signed on August 18, 1986; commodities arrived in the country on February 12, 1987. STP billed the local importers three months after the commodities had been delivered to them (May 25, 1987). As of September 30, 1987, there was still an uncollected balance for soybean oil imports of $599,487 (see Exhibit 3).

As noted, the credit terms granted to local importers/users differ from those described in the agreement. Additionally, local importers of soybean oil were to be penalized 12 percent interest on deposits overdue. As of September 30, 1987, of the $61,295 (equivalent) billed for interest, only $2,240 had actually been collected. Importers of wheat and rice (public sector institutions) were not penalized; although in the case of the rice importers (Bagricola), at least eight months had elapsed since the commodities were received. All of the above factors (change in payment policies, late signings of individual commodity agreements and delays of up to five months in billing importers), coupled with ineffective USAID oversight, resulted in slow development of new projects due to lack of timely deposits to fund these activities. Even though local currency funds, which were currently not being used, were deposited in non-interest-bearing accounts at the Central Bank; these funds had already been earmarked for approved development projects. The approval of new projects required availability of new funds. Of the total $40.8 million (equivalent) generations expected for fiscal year 1986, only $11.2 million had been approved for the implementation of projects, and no fund releases had occurred as of September 30, 1987.

Finally, during the planning process for commodities to be imported by the GODR under the fiscal year 1986 agreement, domestic rice inventories and domestic production for 1986/1987 were substantially underestimated, which left the local rice importing entity with an excess of about 107,142.46 metric tons (MT) of rice that could not be absorbed within a reasonable time by the local market (rice imports for fiscal year 1986 were 55,528.17 Metric Tons). Consequently, the rice importer had no resources available to cover the cost of the imported rice, which amounted to about $10.2 million. According to Bagricola officials, resources were tied up in rice inventories. Consequently, no payments had been made as of September 30, 1987 to cover the import of rice for the fiscal year 1986 program. To improve its cash flow problem, Bagricola had started a program to export its rice surplus. To this effect, 44,642.86 MT of rice were being exported to Haiti, which raises a question regarding the Dominican Republic's need for rice.

Late payments by local importers and the inability to pay for the import of rice resulted in the delay or unavailability of resources needed to improve the lives of the Dominican rural poor.

Management Comments

USAID/DR responded:

> Prior to 1986, there had been no provision for penalties in the agreements between the GODR and local importers. The GODR has the right to establish whatever terms, including penalty and interest payment terms between itself and the local importers it feels are necessary. A.I.D. is not a party to these agreements and therefore is not in a position to enforce or intervene in them.
>
> Under the PL 480 Title I Agreement for fiscal year 1986, USAID/DR has and will continue to enforce all deposit and other requirements as established in the Agreement and the Memorandum of Understanding.
>
> The Mission will assess and collect penalties or interest in the future, as appropriate, based upon penalty clauses to be incorporated into future MOU's.
>
> 2.a) The Mission accepts the recommendation and will incorporate appropriate penalties for late payments in future agreements. The Mission Manual Order is being revised in this regard....

Office of the Inspector General Comments

As pointed out in the finding, late payment of commodities imported does affect the programming and implementation of new projects; therefore, it is our opinion that USAID/DR should require STP to comply with deposit requirements as stated in the agreements (regardless of independent agreements between the GODR and the local importers). In addition, any deviation of requirements stated in the agreements should be previously approved in writing by appropriate USAID/DR officials.

Recommendation 2(a) can be closed upon receipt of the Mission Manual Order. Recommendation 2(b) will be closed upon receipt of evidence of payments made by Banco Agricola and evidence of collection of the outstanding balance for Edible Oil.

3. The Deposit of PL 480 Title I Sales Proceeds in an Interest-Bearing Account Is To Be Encouraged

A.I.D. Policy Determination No. 5 encourages the deposit of PL 480 Title I sales proceeds in interest-bearing accounts in order to conserve their value for the high priority development activities they are destined to finance. Because the interest-bearing accounts issue was not contemplated in these sales agreements or subsequent memoranda of understanding, Title I commodity sales proceeds in the Dominican Republic were deposited in a non-interest-bearing account at the Central Bank, where funds remained for long periods of time without earning interest. As of September 30, 1987, for example, over $42.6 million (equivalent) in Title I sales proceeds lay idle in the GODR Central Bank. Assuming potential annual interest earnings of 15 percent, about $500,000 equivalent per month in interest earnings could be earned if these funds were deposited in an interest-bearing account.

Recommendation No. 3

We recommend that USAID/Dominican Republic take steps to encourage Government of Dominican Republic officials to establish a depository mechanism whereby Public Law 480 Title I local currency sales proceeds can be deposited in an interest-bearing account.

Discussion

A.I.D. Policy Determination No. 5, issued in February 1983, regulated the programming of local currencies arising from the sales of PL 480 commodities. It encourages the deposit of sales proceeds into an interest-bearing account (at a commercial bank if necessary) in order to help finance development activities not yet ready for implementation. Both the principal and interest would then be available for funding such activities.

The PL 480 Title I sales agreements require the Government of the Dominican Republic to open a "Special Account" in the Central Bank where all sales proceeds are deposited. STP then authorizes the Central Bank to disburse funds to each individual project. However, because the Central Bank is not a commercial bank but a regulatory institution, by law it cannot pay interest on deposits it maintains. Because of this, PL 480 Title I sales proceeds remained idle for long periods of time without earning interest.

Title I commodity sales proceeds for fiscal years 1984 through 1986 had generated the equivalent of $130.9 million as of September 30, 1987, of which nearly $42.6 million equivalent remained on deposit at the Central Bank as follows:

Agreement	Deposits	Disbursements	Balances
1984	$ 57,841,670	$49,167,136	$ 8,674,534
1985	32,228,452	25,939,063	6,289,390
1986	28,394,100	807,755	27,586,345
	$118,464,222	$75,913,954	$42,550,269

As may be noted in the above schedule, resources had been idle for periods ranging from 2 months ($27.5 million) for the fiscal year 1986 agreement to more than 12 months for the fiscal year 1984 agreement ($8.7 million). With the current 3/ devaluation of the Dominican peso and accompanying inflation, these resources had lost at least 12 percent of their purchasing power. Had these resources been placed into an interest-bearing account, the project would have been able to carry out all its programmed projects at the anticipated accomplishment levels, and the additional increase in resources could have been used for mutually agreed upon rural development projects. Given the slow disbursement of these funds, the Central Bank could open a Demand Deposit Account for 180-day investment periods and, assuming an annual interest rate of 15 percent (the amount offered by a local branch of an American bank for the deposit of A.I.D. Trust funds), generate several million pesos a year.

We recommend that USAID/DR, in consultation with appropriate GODR officials, establish a procedure so that PL 480 Title I local currency sales proceeds can be placed into an interest-bearing account. If no public sector institution can pay interest, such deposits could be made into a commercial bank under the name and control of the Central Bank or another GODR entity.

Management Comments

USAID/DR stated that:

> Policy Determination No. 5, as revised, indicates only that USAID/DR should "encourage" the GODR to consider interest-bearing accounts for local currency funds belonging to the host government. The USAID/DR Mission Order on Local Currency Management also requires consultation with the GODR on this point. USAID/DR has often consulted with the GODR on this issue and is in complete compliance with both PD No. 5 and the Mission Order.

3/ As of September 30, 1987, the exchange rate was DR$3.48 to US$1. It is about DR$5.5 to US$1 at today's rate.

The GODR has advised consistently in our discussions that local currency owned by the Government must according to policy, be maintained in the Central Bank and that the Central Bank will not pay interest on these accounts. Furthermore, funds transferred to the accounts of executing agencies must be maintained in the Banco de Reservas where GODR policy likewise precludes the payment of interest. However, we are requesting a written statement from the GODR on this matter for the files.

...As discussed above the Mission is in complete compliance with the applicable guidance. USAID/DR requests that this recommendation be closed upon the submission to RIG of the letter and GODR response.

Office of the Inspector General Comments

Even though PD No. 5 as revised in October 1987 states that local currency funds are host country resources, therefore subject to the laws and regulations of the host government, PD No. 5 has since February 1983, encouraged the deposit of sales proceeds into an interest-bearing account. In addition, Recommendation No. 3 requires evidence of consultation with appropriate GODR officials, and USAID/DR has responded that a written statement from the host government is being requested. Consequently, the recommendation remains still valid. We will consider closing this recommendation upon receipt of a copy of the opinion of host country legal counsel.

B. Compliance and Internal Control

1. Compliance

The audit disclosed four compliance exceptions.

First, for commodities imported under the PL 480 Title I agreement for fiscal year 1986, STP agreed to more lenient credit terms with the local importers than those established in the governing agreements (Finding 2).

Second, individual sales agreements with local importers of edible oil established penalties for late payments. However, these penalties were not always assessed or collected (Finding 2).

Third, the total Currency Use Payment due for fiscal year 1984 had not been collected and appropriate written notification for this non-collection of the CUP was not made to the Inter Agency Group in Washington (see following section on Other Pertinent Matters).

Fourth, the Memorandum of Understanding for the use of the proceeds generated under the PL 480 Title I agreement for fiscal year 1985 required the establishment of a repayment schedule to reduce arrearages under previous PL 480 Title I agreements. However, we found no evidence in the Mission of compliance with the 1985 provision (Other Pertinent Matters).

The review of compliance was limited to the findings in the report.

2. Internal Controls

Two internal control exceptions were found during the audit.

First, there was a lack of segregation of duties in the host country implementing agency. A review of the Technical Secretariat of the Presidency's Commercialization Division, which is responsible for the procurement and sale of PL 480 commodities as well as the collection of the proceeds generated, indicated that one person was responsible for virtually all the functions (see Finding 1).

Second, there was a disagreement between the U.S. Embassy and USAID/DR over responsibilities for the collection of Currency Use Payments (Other Pertinent Matters). Therefore, no one was actually following up on the collection of payments due, or ensuring that the GODR's dollar loan balance was correct.

C. Other Pertinent Matters

The Memorandum of Understanding for the use of the sales proceeds generated under the PL 480 Title I agreement for fiscal year 1985 in Section 1.4 states:

> I.4 Establish a repayment schedule, acceptable to the U.S. Government, to reduce arrearages [in dollar loan payments by the GODR to the U.S. Department of Agriculture Commodity Credit Corporation] under previous PL 480 Title I agreements which amount to US$14,637,207 as of March 31, 1985.

This provision was neither repeated in the 1986 agreement nor was any evidence of compliance with the 1985 provision found in the Mission's files.

No one on the Mission's staff with whom we spoke was able to advise us as to what action had been taken to implement the above provision or why it was eliminated from the following year's agreement. We also contacted the current Agricultural Attache who told us that he was unaware of the status of the arrearage problem.

Our concern in this regard was heightened after reading State Department Telegram No. 157216, dated May 22, 1987 (see Appendix 1), dealing with "GODR ARREARS TO THE USG," which contains two PL 480 related line items totaling over $80 million in arrearages, for which A.I.D. may have certain participatory follow-up responsibility.

This point was raised with AID/W, who does not track payments under this program, also CCC was contacted. They had a set procedure for notifications of payments due, however, they had been behind with this procedure until July 1987. Because of the lack of information in this regard, we suggest that USAID/Dominican Republic should not only include requirements for arrearages schedules in future PL 480 agreements, but should also develop a mechanism for tracking down actions taken and for monitoring current balances or any arrearages with PL 480 Title I loans.

<u>Currency Use Payments</u> - The U.S. Government (USG), through the U.S. Treasury Department, purchases local currencies using dollars to meet the cost of USG operations overseas. In order to help defray these dollar costs, a Currency Use Payment (CUP) was instituted in 1966. The CUP is treated as an advance payment on the principal of the dollar loan owed by the importing country.

The amount of local currencies to be paid as a CUP is a percentage of the total value of Commodity Credit Corporation (CCC) disbursements for the purchase of Title I foods. To calculate the amount of local currency to be received via the CUP, current legislation requires that the United States Government receive a rate of exchange which is not less favorable than the highest exchange rate legally obtainable.

Additionally, a Department of State telegram issued in August 1984 urges all Missions to place priority on the timely collection of CUP payments, and states that, if a Mission sees reasons to delay requests for collections, the matter should be promptly reported to the Department EB/OFP; which will coordinate with the Bureau, M/Comp, and the Treasury Department.

The PL 480, Title I agreement for fiscal year 1984 specified a 2.5 percent CUP payment by the GODR on amounts disbursed by the Commodity Credit Corporation (CCC). CCC disbursements for 1984 amounted to $27,717,859, for which the GODR would provide the local currency equivalent of $692,946. However, according to USAID/DR's and Embassy's records, only two payments, totaling the equivalent of $299,910 were actually received, although the equivalent of $692,946 had been requested.

	Dominican Pesos Received	Rate of Exchange	Equivalent in US$
1/24/85	DR$280,075.72	1:1	$280,075.72
6/5/85	62,278.80	1:3.14	19,834.01
	DR$342,354.52		$299,909.73

On June 27, 1985 USAID/DR advised the GODR of a shortfall of $393,037 in Currency Use Payments, but no other follow-up action was taken by either USAID/DR or the U.S. Embassy and no subsequent payments were made for that fiscal year.

Because the U.S. Embassy was in possession of a large amount of local currency from a dispute involving the Overseas Private Investment Corporation (OPIC), it chose not to collect the full amount of the CUP due for fiscal year 1984. However, the Mission did not advise Washington as required when it decided not to collect the full amount.

In addition, there was a misunderstanding between the U.S. Embassy and USAID/DR over responsibility for collection of the CUP. Because PL 480, Title I Agreements are negotiated by the State Department, which uses these CUP proceeds to cover its local currency operating expenses, USAID/DR officials stated that it was the U.S. Embassy's primary responsibility to follow up on this shortfall. They stated the extent of A.I.D.'s involvement was the computation of Currency Use Payments due and advising the local government when these payments were to be made. They stated the actual correction of CUP payments was the U.S. Embassy's responsibility. According to Embassy officials, CUP monitoring was A.I.D.'s responsibility. They stated that the U.S. Embassy was in no need of more local currency at the time as they had RD$15,000,000 available from the setlement of the dispute involving OPIC.

Because the Mission said the non-collection of CUP does not affect the amount of loan repayments made to the USG, we do not make any recommendation at this point. However, USAID/DR should establish responsibility for monitoring PL 480 Title I loans to the GODR and repayment schedules as well as for the calculation and collection of CUP.

AUDIT OF
USAID/DOMINICAN REPUBLIC
PUBLIC LAW 480 TITLE I PROGRAM

EXHIBITS AND APPENDICES

Audit of USAID/Dominican Republic
PL 480 Title I Program

PL 480 Commodity Sales Proceeds Projects
Programmed and Approved
(by Implementing Agency)

	In DR$000's Programmed	In DR$000's Approved	Number of Projects Programmed	Number of Projects Approved
Government Institutions				
CNA	DR$ 700	DR$ 700	1	1
Central Bank	6,750	550	1	1
CDE	34,969	33,86[illegible]	8	8
SEA	11,569	6,49[illegible]	6	6
INDHRI	56,366	34,155	11	11
SEOPC	29,291	18,300	6	6
SEEBAC	824	2[illegible]	2	1
INAPA	1,050	1,050	1	1
INVI	600	600	1	1
ONAPLAN	250	250	1	1
ODC	550	550	1	1
ONU	478	478	1	1
INAZUCAR	137	--	1	
SESPAS	1,100	1,100	2	2
Mercado Agricola	250	250	1	1
FONDOPREI	242	242	1	1
Private Sector Oriented Projects				
Bagricola	DR$ 78,850	DR$ 74,850	4	4
FIDE	3,300	3,300	1	1
IESC	600	--	1	
STP/FIDE	20,000	--	1	
Banco de Reservas	8,000	--	1	
IDIA	360	360	1	1
NATURA	840	400	1	1
ISA/CADR	3,000	1,500	1	1
UNPHU	1,724	1,724	1	1
COENER	1,000	--	1	
STP	1,400	--	2	
Private Voluntary Organizations				
FUNDEJUR	DR$ 375	DR$ 375	1	1
IDDI	479	479	1	1
FLORESTA	611	611	1	1
CIMPA	120	120	1	1
FDD	841	841	1	1
FUDECO	227	227	1	1
New Programs	347	--		
Total	DR$267,200	DR$183,90[illegible]	66	58
	US$125,961	US$96,21[illegible]		

Exhibit 2

Audit of USAID/Dominican Republic
PL 480 Title I Program
Commodities Imported Under the
Fiscal Year 1986 Agreement
(dated August 18, 1986)

Commodity	Quantity Metric Tons	Date of Arrival	Date of Agreement STP/Importers	Date of Invoices
Soybean Oil	5,997.0	10/6/86	2/5/87	4/6/87
	11,498.5	10/9/86	2/5/87	4/6/87
	10,499.9	2/5/87	2/5/87	5/25/87
	10,533.6	2/12/87	2/5/87	6/25/87
Wheat	15,399.9	9/29/86	3/18/87	12/22/86
	18,591.2	10/1/86	3/18/87	12/22/86
	15,599.9	10/3/86	3/18/87	2/16/87
	14,880.9	10/7/86	3/18/87	2/16/87
Rice	19,359.0	12/3/86	10/28/86	3/30/87
	10,334.1	1/23/87	10/28/86	4/21/87
	15,501.1	1/29/87	10/28/86	3/29/87
	10,334.1	2/23/87	10/28/86	4/23/87

Audit of USAID/Dominican Republic
PL 480 Title I Program
Outstanding Balances Under
the Fiscal Year 1986 Agreement
(In US$)

Commodity	Total L/C to be Generated	Payments/Deposits Received within 60 days as per MOU	Total Payments/ Deposits to 9/30/87	Outstanding Balance
Edible Oil	$23,642,120	$7,923,208	$23,042,633	$ 599,487
Wheat	6,730,427	-	6,730,427	-
Rice	$10,249,113	-	-	10,249,113
Total	$40,621,660	$7,923,208	$29,773,060	$10,848,600

21

APPENDIX 1

INFO: AMB DCM POL SAA ECON CONS AO AGAT DAO MAAG USIS DIR CHRON

VZCZCDGO481
PP RUEHDG
DE RUEHC #7216 1421056
ZNR UUUUU ZZH
P 221054Z MAY 87
FM SECSTATE WASHDC
TO AMEMBASSY SANTO DOMINGO 7147
BT
UNCLAS STATE 157216

LOC: 250 695
22 MAY 87 1056
CN: 29583
CHRG: PROG
DIST: ECON

E.O. 12356: N/A
TAGS: EFIN, EAID, DR
SUBJECT: GODR ARREARS TO THE USG

REF: STATE 151545

2 LS

1. REFTEL REPORTED INCORRECT AMOUNT OF GODR ARREARS OWED TO EXIM. BELOW IS CORRECTED VERSION OF GODR ESTIMATED ARREARS AS OF 5/1/87. AMOUNTS INCLUDE PRINICPAL AND INTEREST, BUT NOT LATE INTEREST.

2. ARREARS UNDER PREVIOUSLY RESCHEDULED DEBT (PRD) REFLECT THE TERMS OF THE MAY 21, 1985, PARIS CLUB AGREED MINUTE. NON-PREVIOUSLY RESCHEDULED DEBT (NPRD) INCLUDES AMOUNTS THAT WERE NOT RESCHEDULED AND REMAIN UNPAID. ALL AMOUNTS ARE IN THOUSANDS OF DOLLARS.

3. ARREARS AS OF 05/01/87.

-	PRD	NPRD	TOTAL	
EXIM	17,300	13,549	30,849	
DOD	575	3,671	4,246	
AID	0	2,040	2,040	
HIG	190	1,253	1,443	
CCC	39,221	30,001	69,202	80,611
PL-480	1,055	10,354	11,409	
TOTAL	59,311	60,878	119,189	

4. AMOUNTS LISTED SHOULD NOT BE CONSIDERED A BILL. USG CREDITOR AGENCIES WILL CONTINUE TO BILL FOR EXACT AMOUNTS DUE, INCLUDING LATE OR ADDITIONAL INTEREST. THE LONGER THE GODR DELAYS PAYMENT ON THESE OVERDUE AMOUNTS (BOTH PRD AND NPRD), THE GREATER WILL BE THESE ADDITIONAL, OR LATE, INTEREST CHARGES.

5. ACTION REQUESTED: PLEASE BRING TO THE ATTENTION OF THE GODR OUR CONCERN OVER ARREARS TO THE USG. SHULTZ
BT
#7216

NNNN

UNCLASSIFIED STATE 157216

22

AUDIT OF PUBLIC LAW 480 TITLE I PROGRAM
DETAILED MANAGEMENT COMMENTS

RECOMMENDATION NO. 1:
USAID/DR SHOULD-

a) Contract with a reputable local Certified Public Accounting Firm to review and analyze the segregation of duties and responsibilities currently in place at the Technical Secretariat of the President's Commercialization Division, and recommend appropriate changes in lines of authority in order to strengthen the Division's system of internal controls; and

b) Contract with a local certified public accounting firm to perform a financial review of the fiscal year 1986 PL-480 Commodity Sales program.

Management Response to Findings, No. 1:

The Mission accepts the findings and agrees that the appropriate separation of duties within this orgainzation is essential.

Management Response to Recommendations, No. 1:

1.a) USAID/DR and the TSP are finalizing the design of a comprehensive technical assistance contract with Price Waterhouse and Co., International (PW &Co) for the CU. A complete review (and suggestions for improvement) of the Commercial Division will be included in the Scope of Work. This recommendation can be closed upon receipt by RIG of a copy of the signed contract with PW & Co.

1.b) Financial review of the fiscal year 1986 PL-480 Commodity Sales Program has been completed by the Mission. A copy of the report is attached and the working papers are available at USAID/DR. USAID/DR therefore requests that this recomendation be closed.

USAID/DRs Detailed Comments

RECOMMENDATION NO. 2:
USAID/DR SHOULD-

a) Establish clear monitoring and financial oversight responsibilities over PL 480 Title I local currency generations to avoid deviations from procedures established in the agreements; any such deviations (such as late deposits) should have been approved in advance by USAID/DR and appropriate penalties assessed and collected; and

b) obtain evidence that the Technical Secretariat of the Presidency has collected all accrued interest from local importers.

Management Response to Findings, No. 2

Prior to 1986, there had been no provision for penalties in the agreements between the GODR and local importers. The GODR has the right to establish whatever terms, including penalty and interest payment terms between itself and the local importers it feels are necessary. AID is not a party to these agreements and therefore is not in a position to enforce or intervene in them.

Under the PL 480 Title I Agreement for fiscal year 1986, USAID/DR has and will continue to enforce all deposit and other requirements as established in the Agreement and the Memorandum of Understanding.

The Mission will assess and collect penalties or interest in the future, as appropriate, based upon penalty clauses to be incorporated into future MOU's.

Mission Response to Recommendations, No. 2

2.a) The Mission accepts the recommendation and will incorporate appropriate penalties for late payments in future agreements. The Mission Manual Order is being revised in this regard and this recommendation can be closed upon receipt of a copy by the RIG.

2.b) USAID/DR can only enforce existing agreements with the GODR to which it is a party. Since USAID/DR is not a party to agreements between the GODR and importers, we hereby request that this recommendation be revised to have consideration of this issue included as part of the Mission Manual Order (MO). The recommendation could then be closed by RIG receiving a copy of the MO.

USAID DRs Detailed Comments

RECOMMENDATION NO. 4:
USAID/DR IN CONSULTATION WITH GODR OFFICIALS SHOULD-

1

Establish a depository mechanism whereby PL 480 Title 1 local currency sales proceeds can be deposited in an interest-bearing account.

Management Response To Findings, No. 4:

Policy Determination No. 5, as revised, indicates only that USAID/DR should "encourage" the GODR to consider interest-bearing accounts for local currency funds belonging to the host government. The USAID DR Mission Order on Local Currency Management also requires consultation with the GODR on this point. USAID/DR has often consulted with the GODR on this issue and is in complete compliance with both PD No. 5 and the Mission Order.

The GODR has advised consistently in our discussions that local currency owned by the Government must according to policy, be maintained in the Central Bank and that the Central Bank will not pay interest on these accounts. Furthermore, funds transferred to the accounts of executing agencies must be maintained in the Banco de Reservas where GODR policy likewise precludes the payment of interest. However, we are requesting a written statement from the GODR on this matter for the files.

Management Response to Recommendation No. 4

As discussed above the Mission is in complete compliance with the applicable guidance. USAID/DR requests that this recommendation be closed upon the submission to RIG of the letter and GODR response.

List of Report Recommendations

Recommendation No. 1

We recommend that USAID/Dominican Republic:

a. contract with a reputable local Certified Public Accounting firm to review and analyze the segregation of duties and responsibilities currently in place at the Technical Secretariat of the Presidency's Commercialization Division, and recommend appropriate changes in lines of authority in order to strengthen the Division's system of internal controls; and

b. contract with a local Certified Public Accounting firm to perform a financial review of the fiscal year 1986 Public Law 480 Commodity Sales program.

Recommendation No. 2

We recommend that USAID/Dominican Republic:

a. establish clear monitoring and financial oversight responsibilities over Public Law 480 Title I local currency generations to avoid deviations from procedures established in the agreements; any such deviations (such as late deposits) should have been approved in advance by USAID/Dominican Republic and appropriate penalties assessed and collected; and

b. obtain evidence that the Technical Secretariat of the Presidency has collected all outstanding balances from local importers.

Recommendation No. 3

We recommend that USAID/Dominican Republic take steps to encourage Government of Dominican Republic officials, establish a depository mechanism whereby Public Law 480 Title I local currency sales proceeds can be deposited in an interest-bearing account.

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