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AUDIT OF
THE SENEGAL AFRICAN ECONOMIC
POLICY REFORM PROGRAM

Project No. 685-0291

Audit Report No. 7-685-88-15

July 19, 1988

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
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WASHINGTON, D.C 20523

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WEST AFRICA

July 19, 1988

MEMORANDUM FOR Director, USAID/Senegal, Sarah Jane Littlefield

FROM: RIG/A/Dakar, John P. Competello

SUBJECT: Audit of the Senegal African Economic Policy Reform Program, Project No. 685-0291 (Audit Report No. 7-685-88-15)

The Office of the Regional Inspector General for Audit, Dakar, has completed its audit of the Senegal African Economic Policy Reform Program (SAEPRP). The draft audit report was sent to you for comment and your comments are included as Appendix 1. The report contains one recommendation which is considered as closed upon issuance of this report. No further Mission action is required. I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

Authorized in 1986, the $15 million SAEPRP supported a series of tax reforms being undertaken by the Government of Senegal (GOS). The program focused on the tax system: customs and tariffs, taxes on income and investment, and property taxes. The SAEPRP consisted of a $14 million grant to be released in three cash payments after tax reforms and other conditions were met, and a $1 million grant for technical assistance and studies to support the reform program.

In receiving the A.I.D. cash grant, the GOS agreed that an equivalent amount of local currency would be used to pay its debts to small and medium-sized businesses, and to local banks holding debt of a former public sector economic agency, known as a parastatal. The $14 million in cash payments to the GOS were scheduled and made as follows:

(1) A cash payment of $5 million was made in October 1986. Of this amount, $3.3 million in local currency was used to pay debts owed to 67 businesses, and about $1.7 million was used to repay the parastatal debt;

(2) A second cash payment of $5 million was made in October 1987, with the local currency used to repay parastatal debt; and

(3) The final cash payment of $4 million was to be made in late 1988 and the local currency was to be used to repay debts owed to businesses.

In addition, as of April 1988, about $300,000 of the second grant had been spent for technical assistance and studies provided by a U.S. based firm and various consultants.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Dakar, made a program results audit to (1) assess the adequacy of the USAID/Senegal system for measuring program effectiveness, (2) determine the extent to which the program had achieved desired results, and (3) identify factors inhibiting performance.

The audit was conducted in Dakar at the Mission and at the GOS implementing agency. A.I.D., GOS, and International Monetary Fund officials were interviewed. Audit work included review and analysis of the Program Assistance Approval Document, program agreements, program implementation letters, contracts, and other relevant documents.

The audit covered the period August 1986 through April 1988. Program expenditures during this period amounted to about $10.3 million. The review of internal controls was limited to the issue raised in this report. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

USAID/Senegal had established an adequate monitoring and evaluation plan to measure program effectiveness. For example, at the time of audit, the Mission was evaluating the effect of custom tariff reforms made earlier in the program on 19 industries in Senegal. The Mission was also monitoring progress toward other reforms of the tax system. However, macroeconomic results of reforms being made later in the program were not expected until some time after the

project ended. To assess the overall results of the SAEPRP, the Mission planned midterm and final program evaluations, and an impact evaluation for 1991.

The Mission had also adequately monitored GOS actions to meet the Program Agreement conditions precedent. At the time of audit, the GOS had met the conditions precedent for the release of the first two cash transfer payments.

The audit identified a weakness in USAID/Senegal monitoring of the use of local currency. The Mission relied on listings of payments provided by the GOS without independently verifying that payments had actually been received. The audit recommended additional verification procedures to better ensure that local currency was used as intended.

Verification of Local Currency Payments Needed

A.I.D. policy required that missions monitor the use of local currency derived from cash transfer programs. While the policy did not define specific monitoring procedures, the objective was to obtain reasonable assurance that monies had been used as intended. USAID/Senegal relied on a list of payments made to businesses as provided by the Government of Senegal. The Mission believed such reliance was reasonable and thus did not independently verify that payments had been received. Audit tests showed that almost $200,000 of the $3.3 million reportedly paid to businesses from the October 1986 cash payment could not be verified. As a result, unless additional Mission actions were taken to verify payments, there was little assurance that local currency derived from the final cash payment of $4 million in 1988 will be received by businesses.

Discussion - A.I.D. Policy Determination No. 5 dated February 1983 is the Agency's basic policy statement on Mission monitoring of local currencies. Originally applicable to sales of Public Law 480 commodities, the policy was extended in 1984 to cover commodity import and cash transfer programs. The policy statement does not prescribe procedures for A.I.D. Missions to use in monitoring local currency use; however the objective is to ensure that monies are used as intended.

In monitoring the use of local currency derived from the cash grants, the Mission relied on a listing of payees supplied by the GOS. For example, the GOS reported that the local currency from the initial $5 million cash grant made in 1986 was used to repay 68 enterprises (67 businesses and one bank). Although the bank was readily identifiable

making it easy to verify that it had received the payment noted, there was little information on the businesses reported as having been paid. For example, 22 of the 67 businesses were identified by acronyms, some of which neither the Mission nor the auditors were able to identify. In addition, 13 payees were identified by individual names only, making it virtually impossible to verify without additional information, such as addresses or telephone numbers.

The Mission believed its reliance on the GOS listing was reasonable. The Mission also justified its belief that payments were being made as the GOS reported, on results obtained during testing of GOS payments made under Economic Support Fund V (ESF-V), a similar USAID/Senegal program having the same reporting procedures as the SAEPRP. In December 1987 the Mission decided to test all 85 payments made to businesses under the ESF-V program's first cash payment. After inquiring at the GOS and conducting its own research, the Mission found addresses for only 41 of the 85 payees. The Mission sent letters to these addresses asking the payees how much they had received in payment of debts from the GOS. Only eight payees had responded by the end of April 1988. Five responded that they had been paid amounts indicated, one payee claimed to have received less than the GOS reported, and two indicated that they had not received payment. For the 33 payees who did not reply, the Mission assumed that no response meant that the payee had received correct payments.

The auditors considered the Mission test of ESF-V payments as inconclusive and thus independently tested local currency payments made to businesses under the first $5 million cash transfer made in 1986 under the SAEPRP. The auditors tested all local currency payments over $50,000 or a total of about $2.9 million of the $3.3 million paid to businesses. The audit found that 16 payments totalling $2.7 million out of the 18 payments tested had been paid as reported by the GOS; two payments amounting to about $200,000 could not be verified (see Exhibit 2). Of these two payments, one payee did not reply to the confirmation request, and the auditors could not locate the place of business. The second payee was an individual with a common name who could not be contacted because the GOS could not provide the address. Without additional information from the GOS, the auditors could not establish if the payees were bona fide or if the two payments had been received.

The auditors discussed the need for improved payment verification with the Mission Controller. The Controller acknowledged that the current system could be improved to

provide better assurance of payment, and that it could not be assumed that payment had been received if the payee did not reply to a request. In his opinion, a better test would be to follow up on those payees who had not replied. However, since this may require significant staff resources, he believed that a smaller sample of payees should be taken and followed up aggressively. Furthermore, he stated that the adequacy of GOS internal controls over payments should be considered in establishing the size of the sample. The auditors agreed that such an approach would be appropriate.

Without additional verification the Mission did not have adequate assurance that payments had been made as reported by the GOS. While the audit uncovered no evidence of diversion or unauthorized use of local currency, the potential for abuse is increased when there is little information to adequately identify payees.

Recommendation No. 1

We recommend that the Director, USAID/Senegal:

a. establish a system of sample testing to better ensure that local currency funds made available through the program's final cash payment of $4 million are used for intended purposes; and

b. request that the Government of Senegal provide the information necessary to verify that the $198,966 of unconfirmed payments in the audit sample were received by bona fide payees.

The Mission stated in reply to the draft report that they had issued a policy directive detailing procedures for payment of local currency debts which would establish a system of sample testing to better ensure that funds made available through the program's final cash payment will be used for intended purposes. The Mission also requested that the GOS provide information necessary to verify that the $198,966 of unconfirmed payments in the audit sample were received by bona fide payees.

Based on these actions, the recommendation will be considered as closed upon the issuance of this report.

AUDIT OF
THE SENEGAL AFRICAN ECONOMIC
POLICY REFORM PROGRAM

EXHIBITS AND APPENDICES

Exhibit 1

Senegal

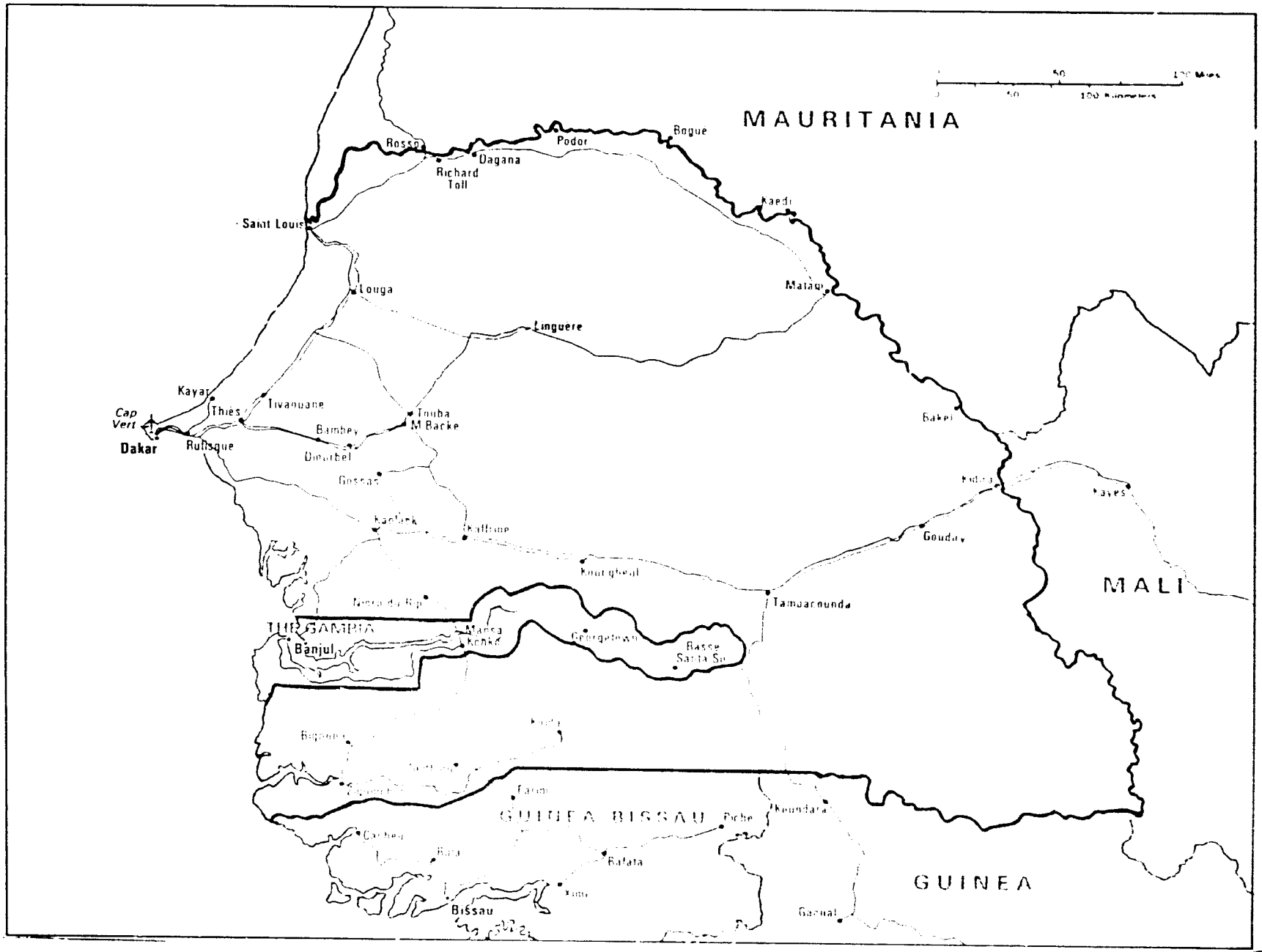

Exhibit 2

Audit Sample

Confirmation of Payments Over $50,000 Paid in Local Currency to Businesses Under the Senegal African Economic Policy Reform Program
(as of April 1988)

Payee Number	Amounts Reported by the GOS	Amounts Confirmed by the Audit	Amounts Not Confirmed
1	$661,150	$661,150	
2	257,054	257,054	
3	238,182	238,182	
4	173,141	173,141	
5	166,667	166,667	
6	166,667	166,667	
7	166,667	166,667	
8	133,667	133,667	
9	133,667	133,667	
10	111,777	111,777	
11	106,644	106,644	
12	100,000		$100,000
13	98,966		98,966
14	89,998	89,998	
15	84,985	84,985	
16	77,893	77,893	
17	58,128	58,128	
18	53,362	53,362	
Total	$2,878,615	$2,679,649	$198,966

Note: Local currency (CFA) is calculated at an exchange rate of 300 CFA = $1.00.

UNITED STATES GOVERNMENT

memorandum

DATE: July 1, 1988

REPLY TO ATTN OF: George Carner, Acting Director, USAID/Senegal

SUBJECT: Comments On Draft Report on Audit of the Senegal African Economic Policy Reform Program

TO: John Competello, RIG/Dakar

I appreciated the opportunity afforded by your audit to review the status of the Program. The subject draft report is reasonable and helpful.

Actions taken to implement the recommendations follow;

1. The USAID/Senegal Acting Mission Director issued a USAID Policy Directive dated June 30, 1988 (copy attached) detailing the audit procedures for payment of CFAF debt or arrears. These procedures establish a system of sample testing to better ensure that local currency funds made available through the program's final cash transfer payment will be used for intended purposes.

2. The USAID/Senegal Mission Director sent a letter to the Government of Senegal General Treasurer on May 31, 1988 (copy attached). The letter included a request to provide information necessary to verify that the $198,966 of unconfirmed payments in the audit sample were received by bona fide payees.

I believe that both part a and part b of Recommendation No.1 have been implemented and may be closed.

Attachments:
(1) Letter RCON:88/2138C dated May 31, 1988 from USAID/Senegal Mission Director to Government of Senegal General Treasurer
(2) USAID-Dakar Policy UDP-074 dated June 30, 1988.

OPTIONAL FORM NO. 10
REV. 1-80
GSA FPMR 41 CFR 101-11.6
5010-114

GPO : 1984 O - 433-783

EMBASSY OF THE
UNITED STATES OF AMERICA

USAID/SENEGAL
BP 49
Dakar, Sénégal

A Monsieur Mamadou Lamine LOUM
Ministère de l'Economie et des
Finances de la République du
Sénégal
Direction Générale du Trésor
Trésorerie Générale
Dakar, Sénégal

Dakar, le 31 Mai 1988

Ref: RCON:88/2138C Programme AEPRP n° 685-0291 USAID/Gouvernement du Sénégal

Monsieur le Trésorier Général,

L'objet de la présente lettre est de demander des informations supplémentaires concernant les réglements des arriérés du Gouvernement du Sénégal dans le cadre du programme de l'USAID sus-cité. Cette demande d'informations résulte d'un audit récemment mené par l'Auditeur Général de l'AID.

1) Le montant en Frs CFA généré par le déboursement, en octobre 1986, de 5 millions de dollars EU était de 1.647.500.000 Frs CFA. La liste des bénéficiaires que vous avez fournie à l'USAID indiquait un total de 1.635.283.046 Frs CFA et concernait des réglements d'arriérés effectués en octobre 1986. Je vous demande de bien vouloir fournir à l'USAID le nom, adresse et numéro de compte bancaire d'un ou de plusieurs autres bénéficiaires d'un montant totalisant non moins de 12.216.954 Frs CFA. Cette liste devrait concerner le ou les réglements effectués en octobre 1986 et qui n'ont pas encore été remboursés par l'USAID ou par un autre donateur. Au cas où vous n'auriez pas dans vos documents comptables un nombre suffisant de réglements effectués en octobre 1986, vous pourriez nous fournir la liste d'autres réglements effectués dans la période de douze mois avant octobre 1986 et qui n'ont pas encore été remboursés par l'USAID ou par un autre donateur. Vous voudrez bien indiquer sur la liste la ou les dates auxquelles les réglements ont été effectués et que ceux-ci n'ont pas encore été remboursés par l'USAID ou par un autre donateur.

2) Il est fait référence à votre lettre du 18 mars 1987, en réponse à la lettre de Mr. Lubell du 2 mars 1987, demandant les adresses de certains bénéficiaires remboursés sur le montant en Frs CFA généré par le déboursement en octobre 1986 de 5 millions de dollars EU mentionné ci-dessus. Vous voudrez bien fournir à l'USAID l'adresse de Maissa N'Diaye qui, selon votre liste de bénéficiaires, a reçu 29.689.706 Frs CFA. D'autre part, les auditeurs de l'AID n'ont pas pu localiser la SIDEXTRI dont l'adresse, selon votre lettre du 18 mars, est Pikine Icotaf n° 148 et 149. Je vous saurais gré de bien vouloir donner l'ordre à un de vos agents d'accompagner un employé de l'USAID au siège de la SIDEXTRI pour que l'USAID puisse confirmer le réglement de 30.000.000 Frs CFA indiqué dans votre liste de bénéficiaires.

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Sur suggestion des auditeurs de l'AID, nous demandons en outre qu'à l'appui de toutes les futures listes de réglements d'arriérés et de dettes, vous indiquiez le nom, l'adresse, le numéro du compte bancaire et le montant payé à chaque bénéficiaire. L'USAID se prépare actuellement à débourser, dans le courant de 1988, 4 millions de dollars EU dans le cadre du programme AEPRP. Nous vous informerons de la date de déboursement proposée au moins trente jours à l'avance. Conformément au Mémorandum d'Accord portant sur les Transferts de liquidités du Fonds de Soutien Economique (AID/PRM 87-69 du 24 septembre 1987), nous vous demanderons alors de nous fournir une liste avec les noms, adresses, numéros de comptes bancaires et montants payés des réglements sur la dette remboursable de l'ONCAD ou les arriérés du secteur privé d'un montant total dont l'équivalent en Frs CFA n'est pas inférieur à 4 millions de dollars EU. Cette liste ne devra inclure que les réglements effectués dans les douze derniers mois avant la date d'établissement de la liste et vous devrez certifier que ces réglements n'ont pas encore été remboursés par l'USAID ou par un autre donateur.

Je saisis cette occasion pour vous remercier de l'excellente coopération que vous avez bien voulu accorder aux auditeurs de l'AID lors de leur mission sur le terrain. Je suis persuadée que les objectifs du programme AEPRP continueront à être atteint et vous remercie de votre coopération à l'avenir.

Veuillez agréer, Monsieur le Trésorier Général, l'assurance de ma considération distinguée.

S. J. Littlefield
Directeur
USAID/Sénégal

USAID-DAKAR POLICY

FILE FOR FUTURE REFERENCE

June 30, 1988
UDP - 074

TO : All Offices

FROM : George Carner, Acting Mission Director

SUBJECT: Audit Procedures for Payment of CFAF Debt or Arrears Under Economic Support Fund (ESF) and Senegal Africa Economic Policy Reform (AEPRP) Grant Agreement

The procedures described here are meant to assure that local currency funds made available for payment of G.O.S. debt or arrears are used for the intended purpose.

USAID will require a list with name, address, bank account number and amount paid or to be paid before authorizing a release of funds. USAID will not issue a PIL authorizing release of funds without the required list. The address requirement is important since without addresses the confirmation procedures stated below cannot be performed.

Immediately upon receipt of the listing the USAID Controller will select a sample of payees for confirmation purposes. If the number of payees (universe) permits it, the sample size will be chosen statistically. Otherwise, the sample size will be chosen judgementally. The test will begin with USAID delivery of positive confirmation requests to each sample payee. Two weeks later USAID will retrieve the completed confirmations. Any discrepancies revealed will be aggressively followed up with the G.O.S. and/or payee.

USAID will not authorize further releases of funds for debt or arrears payments under a given program until all discrepancies are resolved to the satisfaction of USAID.

Appendix 2

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