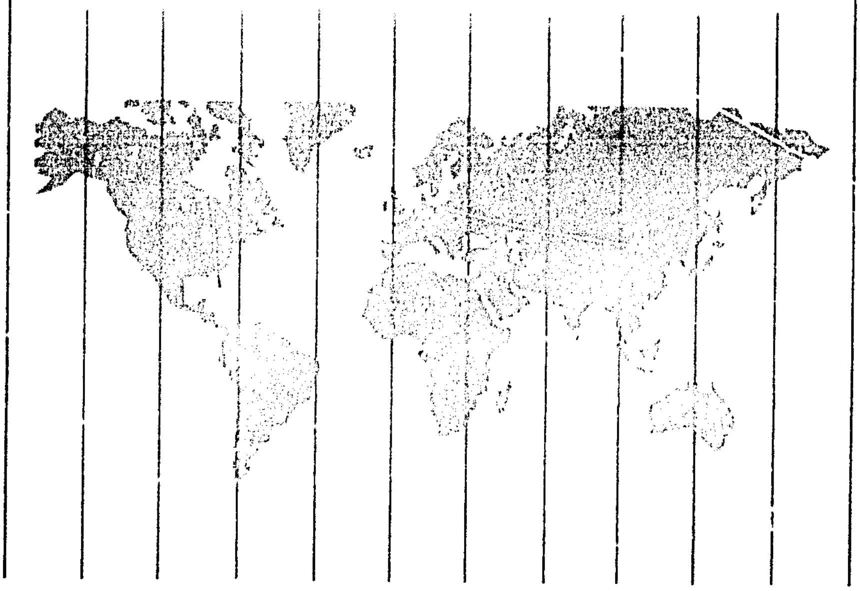
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL



Regional Inspector General for Audit
NAIROBI

AUDIT OF
USAID/RWANDA'S POLICY REFORM INITIATIVES
IN MANUFACTURING AND EMPLOYMENT PROGRAM
NO. 696-0127

AUDIT REPORT NO. 3-696-89-01
October 31, 1988

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09675

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

October 31, 1988

MEMORANDUM FOR DIRECTOR, USAID/Rwanda, James Graham

FROM: Richard C. Thabet, RIG/A/N

SUBJECT: Audit of Rwanda Policy Reform Initiatives in Manufacturing and Employment Program No. 696-0127
Audit Report No. 3-696-89-01

The Office of the Regional Inspector General for Audit, Nairobi has completed its audit of the Rwanda Policy Reform Initiatives in Manufacturing and Employment Program. Attached are five copies of the audit report.

A draft report was submitted to you for comment, and your comments are attached to the report. The report contains three recommendations. Recommendation Nos. 1, 2 and 3 are resolved and will be closed upon receipt by this office of evidence that shows that the cited actions are complete. Please provide me these additional materials within 30 days.

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

Attachments: a/s

EXECUTIVE SUMMARY

The Rwanda Policy Reform Initiatives in Manufacturing and Employment Program was authorized in September 1985 to assist the Government of Rwanda in making structural adjustment and policy changes in the manufacturing sector, including changes in price controls, tariff structures, and access of small and medium enterprises to tax incentives and credit guarantees. Local currency generated by the Program was to be used for privatization of parastatals and other mutually agreed purposes.

By July 1988, $6.5 million of $10 million had been disbursed to the Government of Rwanda in support of policy changes. Also $1.4 million of $2 million had been committed to fund technical assistance for various economic policy studies and training.

The Office of the Regional Inspector General for Audit, Nairobi made an economy and efficiency audit to determine whether: (a) the Program was being implemented in a timely manner, (b) idle local currency was deposited in interest bearing accounts, (c) obligations were being liquidated in a timely manner, and (d) local currency was being programmed as required by A.I.D. regulations.

Certain aspects of the Program were successful. For example, the Investment Code was revised to give small and medium enterprises more preferential treatment and some price controls were relaxed. Further, the technical assistance component of the Program met with some success in conducting studies in such sub-sectors as finance, textiles, wood and employment.

However, the audit identified four problem areas: Program implementation was delayed, local currency was deposited in a non-interest bearing account, obligations were not liquidated in a timely manner, and not all local currency was programmed. The local currency programming problem was corrected by Mission management and was therefore deleted from the final report. The following three problems still require management attention.

The Program Grant Agreement provided for the release of all Program cash disbursements by December 31, 1987. However, as of that date, only $3.5 million out of $10 million had been disbursed to the Government of Rwanda. These disbursement delays were caused by day-to-day management problems, which have been addressed, and by Program design problems which still plague program implementation. Unless the Program design is rectified, further delays will occur in fund disbursement, and there will be no assurance that all policy reforms undertaken by the host government will be consistent with those that were intended under the Program. The report recommends that the Program be redesigned/modified to facilitate timely and effective implementation. Mission management agreed with this recommendation.

About $787,000 of the $3.5 million in local currency generations was lying idle in a non-interest bearing account as of April 30, 1988. A.I.D. Policy Determination No. 5 recommended that local currency generations be deposited in interest bearing accounts until needed. USAID/Rwanda officials informed us that due to an oversight, the Mission did not propose an interest bearing account requirement during negotiations with the GOR to develop the Program Grant Agreement. Over $300,000 of interest could have been earned and used to finance additional Program local costs had the first tranche of $3.5 million in local currency been deposited in an interest bearing account. The report recommends that the local currency be placed in an interest bearing account. Mission management agreed with this recommendation.

Legislation and A.I.D. financial policy required missions to liquidate obligations in a timely manner. However, USAID/Rwanda had $662,000 in unliquidated obligations dating back to 1986 which related to an expired cooperative agreement with Harvard Institute of International Development/Michigan State University. This occurred because A.I.D. had not received country-specific expenditure data from the University which drew down funds against a letter of credit covering A.I.D. projects in multiple countries. As a result, USAID/Rwanda did not know if the obligations were sufficient to cover the University's Program expenditures in Rwanda or if some obligated amounts could be de-obligated or reprogrammed. The report recommends that close out procedures on the expired cooperative agreement be conducted to determine the correct amount of any unliquidated Program obligations that would be available for deobligation or reprogramming. Mission management agreed with this recommendation.

Office of the Inspector General

AUDIT OF
RWANDA POLICY REFORM INITIATIVES IN
MANUFACTURING AND EMPLOYMENT PROGRAM

TABLE OF CONTENTS

AUDIT OF
RWANDA POLICY REFORM INITIATIVES IN
MANUFACTURING AND EMPLOYMENT PROGRAM

PART I - INTRODUCTION

A. Background

The Rwanda Policy Reform Initiatives in Manufacturing and Employment (PRIME) Program was authorized in September 1985 as part of the overall Africa Economic Policy Reform Program. The purpose of PRIME was to assist the Government of Rwanda (GOR) in making structural adjustment and policy changes in order to stimulate production and employment in the manufacturing sector, particularly in the small and medium sub-sector (see map on next page for location of Rwanda). Specific policy changes included (1) liberalizing price controls, (2) modifying the entire tariff structure, and (3) increasing access of small and medium enterprises to tax incentives and credit guarantees. Local currency generated by the Program was to be used for privatization of parastatals and other GOR/A.I.D.agreed purposes.

Under the Program, $10 million was to be disbursed to the Government of Rwanda in three tranches of $3.5, $3.0 and $3.5 million. The first tranche was released in June 1986; the second tranche was released in July 1988 (after completion of audit field work). Timing of the third tranche release had not been determined.

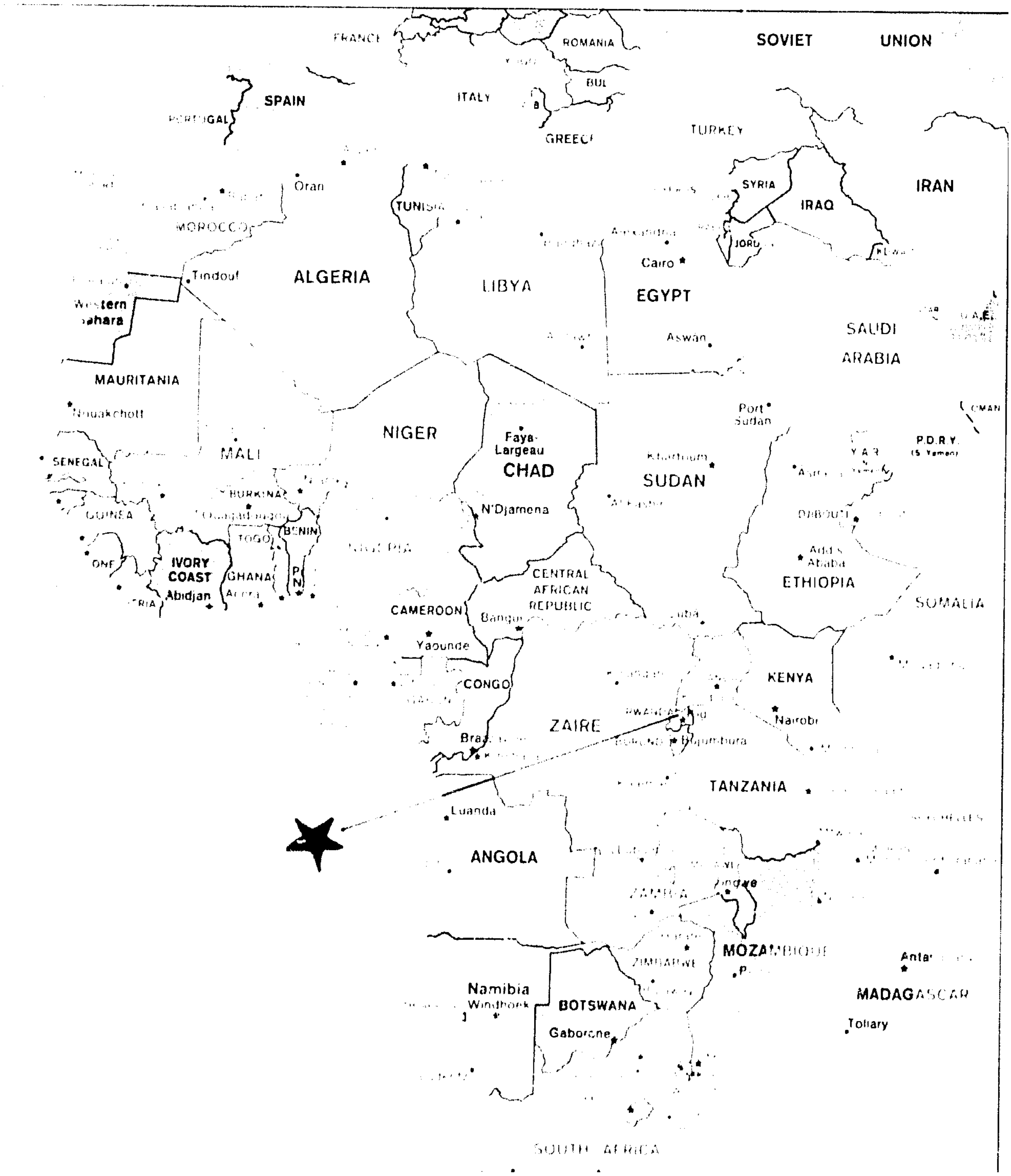
In addition to the $10 million, the Program also provided a technical assistance component of $2 million. Under this component, A.I.D. entered into a cooperative agreement with the Harvard Institute of International Development/Michigan State University to conduct various economic policy studies and training. By March 1988, approximately $1.4 million had been committed for those purposes.

The Program was administered by USAID/Rwanda and implemented by the GOR's Ministry of Finance. The program assistance completion date was June 30, 1989.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Nairobi made an economy and efficiency audit to determine whether: (a) the PRIME Program was being implemented in a timely manner, (b) idle local currency was deposited in interest bearing accounts, (c) obligations were being liquidated in a timely manner, and (d) local currency was being programmed as required by A.I.D. regulations.

Africa



FRANCE
ROMANIA
SOVIET
UNION
BUL
SPAIN
ITALY
GREECE
TURKEY
Oran
TUNISIA
SYRIA
IRAQ
IRAN
MOROCCO
Cairo
Tindouf
ALGERIA
LIBYA
EGYPT
Western
Sahara
Aswan
SAUDI
ARABIA
MAURITANIA
Port
Sudan
Nouakchott
NIGER
Faya-
Largeau
CHAD
P.D.R.Y.
MALI
SENEGAL
SUDAN
N'Djamena
GUINEA
BENIN
TOGO
Addis
Ababa
IVORY
COAST
GHANA
CENTRAL
AFRICAN
REPUBLIC
ETHIOPIA
Abidjan
SOMALIA
CAMEROON
Yaounde
KENYA
CONGO
ZAIRE
Nairobi
Bujumbura
TANZANIA
Luanda
ANGOLA
MOZAMBIQUE
Namibia
Windhoek
BOTSWANA
Gaborone
MADAGASCAR
Toliary
SOUTH AFRICA

To accomplish these objectives, the audit staff examined relevant documentation and interviewed pertinent officials of USAID/Rwanda, the GOR Ministry of Finance, the technical assistance contractor in Rwanda, the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) and the Regional Financial Management Center (RFMC) in Nairobi. The audit covered \$3.5 million of local currency generations and \$1.4 million of technical assistance funding. Review of internal controls and compliance were limited to the issues discussed in the report.

The audit covered the period from September 1985 through March 1988. The field work was performed from March to May 1988 and was made in accordance with generally accepted government auditing standards.

AUDIT OF
RWANDA POLICY REFORM INITIATIVES IN
MANUFACTURING AND EMPLOYMENT PROGRAM

PART II - RESULTS OF AUDIT

Certain aspects of the Policy Reform Initiatives in Manufacturing and Employment (PRIME) Program were successful. However, the audit showed that Program implementation was delayed, local currency was deposited in a non-interest bearing account, obligations were not liquidated in a timely manner, and not all local currency was programmed.

On the positive side, some policy reforms had been implemented as a result of the PRIME program. For example, the Investment Code was revised to give small and medium enterprises more preferential treatment and some price controls were relaxed. Further, the technical assistance component of the Program met with some success in conducting studies in such sub-sectors as finance, textiles, wood and employment.

The audit identified four problems requiring management attention. The Program was not being implemented in a timely manner as reflected in the fact that the second tranche release of program funds was delayed by one and one-half years and release of the third and final tranche was uncertain. Further, much of the $3.5 million in local currency generated from the first tranche remained in a non-interest bearing bank account for over a year. Finally, there were $662,000 in unliquidated obligations dating back to 1986.

To correct these three problems, the report recommends that (1) the Program be redesigned or modified to facilitate timely and effective implementation; (2) local currency be placed in an interest bearing account; and (3) expenditure information be obtained from the technical assistance contractor to liquidate outstanding obligations.

The fourth problem identified by the audit, was corrected by Mission management before the final report was issued. At the time of the audit field work, about $240,000 in local currency was unprogrammed. Based on a report of audit finding, Mission management and the host government programmed these funds which completed programming for all local currency under the first tranche. Since programming of local currency under subsequent tranche releases was covered by Recommendation No. 1, this finding was deleted from the report.

A. Findings and Recommendations

1. Management Problems Have Been Addressed, But the Program Design Needs Modification

The Program Grant Agreement provided for the release of all Program cash disbursements by December 31, 1987. However, as of that date, only $3.5 million out of $10 million had been disbursed to the Government of Rwanda. These disbursement delays were caused by day-to-day management problems, which have been addressed, and by Program design problems which still plague program implementation. Unless the Program design is rectified, further delays will occur in fund disbursement, and there will be no assurance that all policy reforms undertaken by the host government will be consistent with those that were intended under the Program.

Recommendation No. 1

We recommend that the Director, USAID/Rwanda, in conjunction with the Government of Rwanda, redesign/modify the Policy Reform Initiatives in Manufacturing and Employment Program, by (a) developing specific policy reforms to be undertaken and (b) establishing how local currency generations will be used.

Discussion

The Program Grant Agreement called for the disbursement of $10 million in grant funds to be made in three tranches. The disbursements of these funds were to be made on December 31, 1985 for the first tranche of $3.5 million, December 31, 1986 for the second tranche of $3 million and December 31, 1987 for the third tranche of $3.5 million.

Although all funds were expected to be disbursed by the end of calendar year 1987, only the first tranche of $3.5 million had been released at that time. A.I.D. released the second tranche in July 1988 (over one and one-half years late) and the release date of the third tranche was uncertain.

These delays were caused by day-to-day management problems, which reportedly have been rectified, and Program design problems which continue to adversely affect Program implementation.

A joint AID/GOR program evaluation, performed in August 1987, identified management problems which included uncertainty of the role of the technical assistance contractor, inadequate Mission oversight and an inappropriate project management structure. The evaluation report showed that there was a misunderstanding of the precise management role the technical assistance Senior Advisor would play in the program and in what Ministry within the GOR he would work. The GOR was under the impression that the Senior Advisor would be working for A.I.D. However, this matter was later settled when Mission management met with the Minister of Finance and assured him that the Advisor reported to the Minister and not to A.I.D.

According to USAID/Rwanda's response to our report of audit finding, management of the Program within USAID/Rwanda also presented a problem. Although the responsibilities of the Program Manager were defined in her personal service contract, the Program Manager viewed her responsibilities as having a broader role than specified. This led to friction between the Program Manager and the technical team Senior Advisor and also between the Program Manager and the USAID/Rwanda Project Officer. This situation was subsequently corrected with the termination of the Program Manager's personal service contract. Her former duties were later handled by the PRIME Project Officer. The Project Officer informed us that he will transfer this fall and responsibilities of the PRIME Program will be taken over by his replacement, an A.I.D. direct hire economist.

Implementation also suffered from too much management, according to the evaluation, which prevented a real dialogue between the GOR and USAID/Rwanda. The coordination of the Program was done by a "Commission Mixte", composed of at least 10 members who were to meet to deliberate upon various issues related to the management of the Program. According to the evaluation, the meetings of the Committee were poorly prepared, hastily convened, and relevant documents were not submitted in advance. In addition, some diverging opinions seem to have existed concerning the power vested in the Commission. For the GOR, the Commission had a decision role and its decisions bound the parties; for USAID/Rwanda, the Commission was not an effective management tool and could only serve in a consultative role. This confusion caused several misunderstandings as to which action had to be undertaken and who had to undertake it. USAID representatives believed these management problems have improved with the establishment of a new managing body: The Groupe Technique Mixte.

Although management problems have been addressed, Program design problems have delayed, and continue to plague, program implementation. These design problems related to local currency generations and the requirement to complete an industrial incentives study.

Local Currency Generations - The first design problem surfaced when it became apparent that the Program Grant Agreement did not convey to the GOR the importance that A.I.D. placed on local currency usage. On December 13, 1985, the GOR informed USAID/Rwanda that it had met all conditions precedent (CP's) for the release of the first tranche. However, A.I.D. insisted that a Program Grant Agreement covenant be fulfilled before funds could be released. The covenant concerned submission of a preliminary plan for using PRIME local currency funds. The GOR did not submit this plan until May 23, 1986. Through Program Implementation Letter (PIL) No. 6 dated June 26, 1986, USAID/Rwanda informed the GOR that it had successfully met all CP's and fulfilled the covenant for the release of the first tranche.

The first tranche of $3.5 million was finally released on June 27, 1986. However, final agreement on the joint programming of local currency generations was not reached until December 1986 and the methodology for releasing local currency generations from the special account were not in place until April 1987. This delay could have been avoided if local currency planning requirements had been made a condition precedent rather than a Program Grant Agreement covenant thereby underscoring its importance.

Use of local currency was also a design problem in terms of expectations outlined in the Program documentation. Portions of the local currency were to be used for (1) establishment of an Equity Participation Fund and (2) extension of credit to small and medium size enterprises located primarily in rural areas.

The Equity Participation Fund was to be used for privatization of parastatals, i.e. financing private purchases of equity in specific parastatals. However, according to Mission management, the GOR did not support this objective. In fact, the host government sought to improve performance of parastatals with the assistance of the European Economic Community.

Extension of credit to small and medium size enterprises under the PRIME Program also ran into problems because the design did not sufficiently consider the capabilities of the organization which was to implement this component. The Rwanda Development Bank was selected to administer the credit program. However, it did not normally grant smaller loans and it was not organized geographically to reach the small and medium rural borrower. For example, our analysis of Rwanda Development Bank loan disbursements made between January 1, 1988 to April 3, 1988 showed that 95 percent were in amounts in excess of $100,000 -- much too large for the small and medium borrower but typical of the Bank's clientel. Furthermore, the vast majority of the loan recipients were located in the urban area of Kigali because the Bank did not have branch offices in the rural areas.

Therefore, two PRIME policy reform objectives -- privatization of parastatals and extension of credit to small enterprises -- will not be realized under the Program. This occurred, according to the evaluation report, because PRIME was designed well ahead of an adequate knowledge base. This included the feasibility of selling parastatals to the private market and extension of credit to small enterprises through the Rwanda Development Bank.

Industrial Incentive Study - Satisfactory progress in undertaking an industrial incentives study was a condition precedent for release of the second tranche. However, completion of this study was outside the full control of the GOR. The study was part of the $2 million technical assistance component of the PRIME Program under the partial supervision and management of A.I.D. The technical assistance team arrived in country late, delaying start-up of the study. To further complicate the matter, the scope of the study did not address industrial incentives, leading the REDSO/Regional Legal Advisor to conclude that the required study to meet the condition precedent had not been carried out.

Another study was later substituted to meet the requirement but the second tranche release date slipped from December 1986 to July 1988. In effect, the GOR was penalized for delays which were beyond its full control. As such, this study should never have been included in the design of the program as a condition precedent.

Inclusion of the study as a condition precedent for the third tranche release was yet another example of design problems. Specifically, the GOR was required to review the tariff-related recommendations emanating from the industrial incentives study and adopt the major recommendations. The GOR expressed concern on being required to adopt policy reform recommendations which have not yet been developed. As a result, A.I.D. was sponsoring a program in which the specific policy reforms had not been fully identified and in which the GOR could not give assurance that it would implement.

In conclusion, prior management problems and unresolved design problems led to substantial program implementation delays and inability of the PRIME Program to realize objectives such as privatization of parastatals and credit extension to small and medium size enterprises. The requirement to implement future unknown study recommendations put A.I.D. and/or the GOR in a position of possibly financing or implementing policy reforms which they did not favor. To further complicate matters, there was a lack of understanding between A.I.D. and the host government on the programming and use of local currency generations. Unless these design problems are corrected, further delays will likely occur in Program fund disbursements. Further, due to the lack of specificity in the conditions precedent for release of the third tranche, particularly in the reliance on future study recommendations, there was no assurance that all policy reforms envisioned under the $12 million PRIME Program would match those undertaken by the host government. Accordingly, USAID/Rwanda needed to formally amend/modify the PRIME Program documents by delineating the specific policy reforms and local currency uses associated with future Program fund disbursements.

After the field work stage of the audit, USAID/Rwanda issued PIL No. 10 which authorized release of the second tranche and recommended that A.I.D. and the GOR postpone identifying specific conditions for release of the third tranche until the GOR considered studies dealing with (1) streamlining administrative procedures for registration of enterprises, (2) the trade and payments regime, (3) mobilization of savings and extension of credit, and (4) tax system revisions. Implementation of the PIL recommendation would go a long way toward meeting audit report Recommendation No. 1. However, to fully implement it, agreement should be reached on the issue of local currency usage.

Management Comments

In their formal comments on the draft report, the Mission accepted both parts of Recommendation No. 1. During the most recent REDSO scheduling workshop, the Regional Economist and Legal Advisor were scheduled to visit USAID/Rwanda in November 1988. According to the Mission, these REDSO officials will review the existing agreement/documentation and begin open discussions with the GOR to redesign/modify the Program.

Management expressed concern over what Mission actions would be required to clear Recommendation No.1 since redesign activities could take six or more months to complete. They stated they preferred recommendation language that would allow USAID/Rwanda to clear the recommendation by starting redesign/modification rather than completing it.

Office of Inspector General Comments

Planned actions by the Mission, with the assistance of REDSO, appears to fully address Recommendation No. 1. However, the language of the recommendation was not modified because the Inspector General's Office wanted to formally monitor redesign/modification activity up through completion or to a point in time where substantial progress has been made.

2. <u>Additional Program Funds Could Be Generated From Interest Bearing Accounts</u>

About $787,000 of the $3.5 million in local currency generations was lying idle in a non-interest bearing account as of April 30, 1988. A.I.D. Policy Determination No. 5 recommended that local currency generations be deposited in interest bearing accounts until needed. USAID/Rwanda officials informed us that due to an oversight, the Mission did not propose an interest bearing account requirement during negotiations with the GOR to develop the PRIME Program Grant Agreement. Over $300,000 of interest could have been earned and used to finance additional PRIME Program local costs had the first tranche of $3.5 million in local currency been deposited in an interest bearing account.

<u>Recommendation No. 2</u>

We recommend that the Director, USAID/Rwanda amend/modify the Policy Reform Initiatives in Manufacturing and Employment Program Grant Agreement by requiring the Government of Rwanda to deposit local currency generations into an interest bearing account.

<u>Discussion</u>

As of April 30, 1988, $787,000 in local currency was lying idle in a non-interest bearing account with the National Bank of Rwanda (BNR). This amount would have been higher had not three disbursements of about $2.1 million just recently been made. This was part of the $3.5 million of local currency generated from the PRIME Program first tranche release and deposited in the National Bank of Rwanda in July and August 1986.

Policy Determination No. 5, as amended in 1984, recommended that local currency generations, not readily needed, be deposited in interest bearing accounts in a commercial bank. Interest earned on the deposits could be used to finance development projects.

USAID/Rwanda officials stated that, through an oversight, the Policy Determination No.5 recommendation on interest bearing accounts was not proposed by the Mission during negotiations with the GOR to develop the Program Grant Agreement. As a result, the Agreement did not contain such a requirement. Mission officials stated that although there were no local restrictions against interest bearing accounts, the GOR put the funds in a non-interest bearing account.

The local currency generations from the first tranche release of $3.5 million remained idle in a non-interest bearing account for almost one and one-half years. If these funds had been deposited into an interest bearing account at the time it was generated in July and August 1986, an estimated $305,000 could have been earned as interest (based on six and one-quarter percent interest compounded quarterly). Mission officials acknowledged that this additional income could have been used to finance PRIME Program local costs.

If the local currency generations from the second and third tranches of $6.5 million are deposited into an interest bearing account and remain idle for one year (as opposed to one and one-half years for the first tranche), we estimate that interest earnings of $415,000 could be earned assuming six and one-quarter percent percent interest compounded quarterly. The audit report acknowledges that it is not possible to predict how long local currency will remain idle in an interest bearing account. Longer or shorter time periods will result in proportional increases or decreases in estimated interest earnings, respectively.

Management Comments

In commenting on the draft report, Mission management accepted Recommendation No. 2. They stated that the GOR had indicated a strong willingness to deposit the second tranche of local currency generations into an interest bearing account. This procedure was discussed during meetings held on September 22 and 26 at the Ministry of Finance. The Mission was also drafting a letter to request the GOR to establish a policy to transfer the funds into an interest bearing account.

Office of Inspector General Comments

Once the Inspector General's office receives supporting documentation for the above actions, Recommendation No. 2 will be closed.

3. More Financial Information Would Facilitate the Liquidation of Outstanding Obligations

Legislation and A.I.D. financial policy required missions to liquidate obligations in a timely manner. However, USAID/Rwanda had $662,000 in unliquidated obligations dating back to 1986 which related to an expired cooperative agreement with Harvard Institute of International Development/Michigan State University. This occurred because A.I.D. had not received country-specific expenditure data from the University which drew down funds against a letter of credit covering A.I.D. projects in multiple countries. As a result, USAID/Rwanda did not know if the obligations were sufficient to cover the University's PRIME expenditures in Rwanda or if some obligated amounts could be de-obligated or reprogrammed.

Recommendation No. 3

We recommend that the Director, USAID/Rwanda, request AID/Washington to perform close out procedures for the cooperative agreement with Harvard Institute of International Development/Michigan State University to determine the correct amount of any unliquidated PRIME obligations that would be available for deobligation or reprogramming.

Discussion

Section 1311 of Public Law 83-663, approved August 26, 1954 (31 U.S.C. 1501), required that Federal Agencies' controllers attest to the continued need for unspent funds. A.I.D. Handbook No. 19 required continuous reviews of unliquidated obligations to permit timely deobligations of unneeded funds. Thus, timely liquidation of obligations was critical to implementing this guidance.

According to the Director, Regional Financial Management Center (RFMC), timely liquidation of obligations involving universities which performed work on multiple A.I.D. projects in multiple countries have been particularly difficult for A.I.D. This has been caused by the fact that university contractors are normally paid through letters of credit which are opened with the contractors' bank for a certain amount of dollars. The contractor then submits payment vouchers to the bank and the bank makes direct payments to the contractor. The bank then submits vouchers to AID/Washington to claim reimbursement which should be reconciled with contractor expenditure reports by project. AID/Washington in turn submits an Advice of Charge to the applicable USAID so it can record the expenditure on their books, thus liquidating all or part of the applicable obligations.

A review of a March 3, 1988 RFMC financial report showed that since July 1986, a total of $662,000 in PRIME obligations had been made against a Harvard Institute of International Development/Michigan State University cooperative agreement. However, the entire $662,000 in obligations remained unliquidated even though the University was scheduled to complete its work in August 1988.

USAID/Rwanda officials informed us that none of the $662,000 in obligations had been liquidated because A.I.D. had not received sufficient financial data from the University. The University performed work related to the PRIME Program under a cooperative agreement which covered multiple A.I.D. projects in various countries. Although requested by the Mission, as of May 1988, USAID/Rwanda had not received any Advice of Charges from AID/Washington regarding the University's PRIME contract. AID/Washington informed the Mission that they could not supply expenditure data because the University did not provide detailed information as to which USAID missions the expenditures were to be applied. AID/Washington also informed USAID/Rwanda that the Contracting Officer in Washington requested the University to supply this information in June 1987. By May 1988, USAID/Rwanda still had not received information from either AID/Washington or the University.

As a result, USAID/Rwanda did not know the level of expenditures incurred against the contract. Thus they did not know whether the obligated amounts were sufficient to cover the expenditures being incurred by the University or if any funds were available for deobligation.

Management Comments

In their formal comments on the draft report, Mission management accepted the general thrust of a draft recommendation involving curtailment of payments to the University as a means of forcing it to provide detailed information on PRIME program expenditures. Since the University's contract under PRIME expired on August 31, 1988, they suggested a revision to the recommendation calling for the Mission to request AID/Washington to perform close out procedures that should provide the needed financial information.

They also pointed out that they would not consider deobligating any funds because they planned to redesign the Program and use any remaining funds to finance new activities. Further, the original recommendation dealt with the possible need to curtail contract activities to cover any projected shortfalls in PRIME funds. Mission management stated that a 1311 review, completed on September 30, 1988, projected no shortfalls.

Finally, the Mission raised concerns over what actions would be necessary to close Recommendation No. 3 since they had already requested AID/Washington assistance in this matter.

Office of Inspector General Comments

We revised the recommendation, as requested, to include AID/Washington contract close out procedures. However, we kept the option of deobligation in the recommendation since the redesign of the Program may not be approved by AID/Washington or accepted by the GOR. However, we added a reprogramming option to allow more flexibility in implementing the recommendation.

Although we do not understand how an accurate 1311 projection could have been made without detailed information from the University, we deleted the reference to curtailing contract activities from the recommendation since the University contract under PRIME expired on August 31, 1988 after audit field work was completed.

In terms of recommendation closure, the Inspector General's Office will monitor actions taken by both the Mission and AID/Washington. If it appears that either party is not making a good faith effort to close the recommendation, we may elevate the recommendation to a higher level.

B. Compliance and Internal Control

Compliance

As discussed in finding No. 2 of the report, USAID/Rwanda did not comply with A.I.D. Policy Determination No. 5 since it did not require the GOR to deposit all local currency in an interest bearing account. Further, finding No. 3 showed that in non-compliance with A.I.D. Handbook 19, inadequate A.I.D. reviews resulted in $662,000 in unliquidated obligations dating back to 1986. Also, as discussed in the Other Pertinent Matters section, the GOR needed to supply reports covering the use of local currency released from the Special Account in compliance with the Program Grant Agreement. Audit work in compliance was limited to the three issues reported here.

Internal Control

Audit finding No. 3 showed that A.I.D. did not have adequate internal controls over expenditures under the Cooperative Agreement with Harvard Institute of International Development/Michigan State University because AID/Washington was not receiving a breakdown of university expenditures by project and by country. The review of internal controls was limited to this reported finding.

C. Other Pertinent Matters

USAID/Rwanda did not receive all GOR Ministries' financial reports covering the release and use of PRIME local currency. Although the PRIME Program Grant Agreement stipulated that GOR Ministries provide such information, USAID/Rwanda officials stated they had not requested the information because the funds were only recently released. Nevertheless, if the Mission does not receive such reports it will not be able to track Program expenditures or adequately monitor program activities.

During July and August 1986, the GOR deposited into a special bank account the local currency equivalent of $3.5 million from the PRIME Program first tranche release. As of April 30, 1988, the local currency equivalent of $2.7 million had been disbursed from the special account to the GOR Ministries and the Rwanda Development Bank. Only the Ministry of Finance had reported on the use of the $598,000 that it had received. The other three entities had not reported on their use of about $2.1 million received in December 1987 and the early part of 1988.

Article 3B(4) of the PRIME Program Grant Agreement stated that the Grantee agreed to furnish A.I.D. with such reports and information relating to activities financed with funds from the Special Account as A.I.D. may reasonably request. USAID/Rwanda had not requested from the delinquent GOR Ministries any reports on the use of local currency because funds had only been released to some of the ministries in December 1987 and early 1988.

Although the Mission's position was understandable, designing the report format and preparing and obtaining approval of a Program Implementation Letter would take time. Thus unless this was done in a timely manner USAID/Rwanda would not be able to track program expenditures or adequately monitor program activities.

The Mission, in responding to this finding, stated they were working on a reporting system to correct the situation. Accordingly, the audit report does not make any formal recommendation concerning this issue.

AUDIT OF
RWANDA POLICY REFORM INITIATIVES IN
MANUFACTURING AND EMPLOYMENT PROGRAM

PART III - APPENDICES

25-OCT-88

[illegible] INFO: [illegible] ON [illegible]

[illegible] /21 [illegible]

[illegible] II

[illegible] PRIORITY [illegible]

[illegible] 01 OF 02 [illegible]

[illegible] AID/A/[illegible] FROM JAMES A. GRAHAM, DIRECTOR,

[illegible] POLICY REFORM [illegible] AND EMPLOYMENT [illegible]

[illegible] THE [illegible] SUBJECT DRAFT [illegible].

[illegible] NO. 1:

[illegible] RECOMMENDATION. [illegible] IN [illegible] THAN COMPLETING [illegible].

[illegible] NO. 2:

[illegible] THE [illegible] HAS [illegible] SECOND [illegible] INTO AN INTERIM [illegible] DURING A [illegible] AND [illegible] AT THE [illegible] A [illegible] POLICY TO [illegible] SENT TO [illegible]

[illegible] NO. 4:

[illegible] RECOMMENDATION. ALTHOUGH THE DRAFT

[illegible]

REPORT SUGGESTS A SOLUTION TO CORRECT THIS SITUATION OF UNTIMELY FINANCIAL REPORTING BY THE IQC CONTRACTOR, THE MISSION FEELS THAT ITS COMMITMENT TO REIMBURSE THE CONTRACTOR FOR THE SERVICES PROVIDED TO THE GOR IS STILL VALID. ALSO, THE CONTRACT WITH HARVARD INSTITUTE/MICHIGAN STATE UNIVERSITY EXPIRED ON AUGUST 31, 1988 AND A REQUEST TO STOP FURTHER PAYMENTS AT THIS TIME WILL NOT GUARANTEE THE RECEIPT OF FINANCIAL DATA. INSTEAD, THE MISSION WILL ASK AID/W TO PERFORM THE CLOSE-OUT PROCEDURES FOR THIS CONTRACT AND HOPEFULLY, THIS PROCESS SHOULD PROVIDE THE MISSION WITH A FINAL REPORT. AS FOR DEOBLIGATING PRIME FUNDS, THE MISSION WOULD LIKE TO REDESIGN THE PROGRAM AND USE ANY REMAINING FUNDS TO FINANCE NEW ACTIVITIES. THEREFORE, THE MISSION WILL NOT CONSIDER THE DEOBLIGATION OF PRIME FUNDS. NOTEWORTHY, AN ANALYSIS (A 1311 REVIEW) OF ALL UNLIQUIDATED COMMITMENTS UNDER THE PRIME WAS COMPLETED ON 8-31-88 AND NO SHORTFALLS WERE PROJECTED.

Deleted - Relates to matters not included in final report.

2. THE FOLLOWING COMMENTS ARE PROVIDED TO CLARIFY THE TEXT OF THE SUBJECT DRAFT REPORT.

A. PAGE (I) - DELETE THE PHRASE (SEE MAP OF RWANDA ON NEXT PAGE).

B. PAGE (III) - CHANGE THE PHRASE (FINALLY, USAID/RWANDA DID NOT) TO READ: FINALLY, USAID/RWANDA (HAD NOT YET).

Sentence deleted from final report.

C. PAGES (IV,5 AND 17) - HOW DID THE AUDITOR CALCULATE THE AMOUNT DOLS 525,220 OF INTEREST? THIS AMOUNT IS NOT

Based on revised interest rate of 6¼ percent supplied by REDSO, interest amount revised to $305,000. Due to complexity of calculations, schedule not included in report. Interest calculation roughly equals first tranche of $3.5 million times 6¼ percent times 1½ years of inactivity in the account.

ACCEPTABLE. THEREFORE, THE MISSION WOULD LIKE RIG/A/N TO ATTACH AN ANNEX TO EXPLAIN THE METHODOLOGY OR FORMULAR USED TO DETERMINE THE INTEREST AMOUNT WHICH COULD HAVE BEEN EARNED.

D. PAGE 6 - WHAT MISSION ACTIONS WILL CLEAR THIS RECOMMENDATION? THE MISSION'S MAJOR CONCERN IS THAT EVERY EFFORT WILL BE USED TO REDESIGN/MODIFY THE PROGRAM BUT, THAT THE REDESIGN ACTIVITIES COULD TAKE SIX OR MORE MONTHS TO COMPLETE.

E. PAGE 18 - WHAT MISSION ACTIONS WILL CLEAR THIS RECOMMENDATION? THE MISSION HAS ALREADY ASKED FOR AID/W ASSISTANCE.

Deleted - Relates to matters not included in final report.

BT
#4334

NNNN

REPORT DISTRIBUTION

Mission Director, USAID/Rwanda	5
AA/AFR	1
AFR/EA/KUTRB	1
AFR/CONT	1
AA/XA	2
XA/PR	1
LEG	1
GC	1
AA/M	2
M/FM/ASD	2
SAA/S&T	1
PPC/CDIE	3
REDSO/ESA	1
RFMC/Nairobi	1
IG	1
DIG	1
IG/PPO	2
IG/LC	1
IG/ADM/C&R	12
AIG/I	1
RIG/I/N	1
IG/PSA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/M	1
RIG/A/S	1
RIG/A/T	1
RIG/A/W	1