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AUDIT OF
COMMODITY IMPORT PROGRAMS
IN TUNISIA

Projects No. 664-K-601, 664-K-602
and 664-K-603

Audit Report No. 7-664-89-06

February 22, 1989

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

UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON, D.C. 20523

February 22, 1989

INTERNATIONAL ADDRESS
RIG/DAKAR
C/o AMERICAN EMBASSY
B.P. 49 DAKAR SENEGAL
WEST AFRICA

MEMORANDUM FOR: George Carner, Director, USAID/Tunisia

Mark S. Matthews, Deputy Controller for
Overseas Operations

FROM: Paul Armstrong, RIG/A/Dakar 

SUBJECT: Audit of Commodity Import Programs in
Tunisia, Projects No. 664-K-601, 664-K-602
and 664-K-603 (Audit Report No. 7-664-89-06)

This report presents the results of subject audit including three recommendations to the Director, USAID/Tunisia and one to the Deputy Controller for Financial Policy and Systems. Written comments received from USAID/Tunisia and the Deputy Controller for Overseas Operations are included as Appendices 1 and 2. Please let me know within 30 days of further actions planned or taken to close the recommendations. We appreciate the cooperation and courtesy extended to our staff during the audit.

Background

Responding to drought-related needs and Tunisian balance of payments constraints, A.I.D. granted about \$21 million in Commodity Import Program (CIP) assistance to the Government of Tunisia. Commodity Import Programs finance the foreign exchange cost of buying and shipping commodities for use in developing countries. The assistance consisted of four grants during fiscal years 1986 through 1989 (see Exhibit 1) which were used to import soya pellets and corn for animal feed. About \$1.3 million from the fourth grant signed in November 1988 was set aside to import aircraft for fighting a locust invasion.

In accordance with grant agreements, the host government purchased and sold the commodities to feedmills for conversion into animal feed. Based on a formula in the grant agreements, the host government deposited sums of local currency in special accounts for joint programming by the host government and USAID/Tunisia. As of November 15, 1988, local currency equalling about \$14.9 million had been generated under the 1986, 1987 and 1988 CIPs.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Dakar, conducted an audit of CIPs in Tunisia. The audit objectives were to determine whether the (a) CIPs responded as planned to drought-related needs and balance of payments constraints, (b) host government complied with provisions of grant agreements and A.I.D. regulations and (c) management controls over commodities and local currency were adequate.

The audit was conducted in Tunisia during October and November 1988 at offices of USAID/Tunisia and the host government. Discussions with USAID and host government officials were held and files and records reviewed at USAID/Tunisia and Government of Tunisia Office of Cereals, Office of Livestock and Pasture, Ministry of Finance, Treasury and Central Bank.

The audit covered about \$14.9 million of local currency generated under the 1986, 1987 and 1988 CIPs but excluded the 1989 CIP, which was signed about a month after the audit began. As of November 15, 1988, local currency equalling about \$12.1 million had been deposited into special accounts; the remaining \$2.8 million had not been deposited. The Mission had approved programming for about \$5.7 million for export expansion and livestock protection of which about \$4.4 million had been transferred from the special accounts to approved activities for expenditure (see Exhibit 1).

A.I.D./Washington's report entitled "Status of Foreign Currency Funds" (W-213) was reviewed to determine if it included information on Tunisian local currency in special accounts. Additionally, the A.I.D./Washington Controller's Office was contacted to discuss the W-213 report and applicable A.I.D. Handbook instructions.

The audit was limited to records and activities in Tunisia and consequently did not examine commodity purchase and

payment documents which were located in the United States. Additionally, the audit did not include physical inspections of imported commodities since they had lost their identity; the corn and soya pellets imported under the CIPs were sold to feedmills where the commodities were mixed with other components into animal feed formulas for sale to farmers. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit found that the CIPs responded as planned to Tunisia's drought-related needs and balance of payments constraints. Also, in programming the local currency generated under commodity sales, USAID/Tunisia identified ways to effect host government policy changes - in one transaction local currency was released for a trade liberalization objective to support trade expansion to other markets; another transaction resulted in the reduction of host government subsidies for cereals. The audit also found that the Government of Tunisia complied with the provisions of grant agreements and A.I.D. regulations.

Finally, the audit concluded that management controls over commodities and local currency were adequate with the following exceptions: local currency was not promptly deposited in special accounts, did not earn interest, and was not reported to A.I.D./Washington. Also, the audit identified local currency equalling about \$691,400 which had not been programmed - - neither the Mission nor the host government office responsible for programming was aware the \$691,400 existed. The audit report recommends prompt deposit of local currency in interest-bearing special accounts and clarification of reporting requirements.

1. Local Currency Should be Promptly Deposited in Special Accounts - To ensure that local currency obtained from selling commodities is rapidly disbursed, the funds should be promptly deposited into special accounts. In Tunisia, deposits of the equivalent of about \$14.9 million into local currency special accounts were delayed by about four months. The delays occurred because grant agreements did not require prompt deposits. Since the funds were not promptly deposited in special accounts, the local currency was not immediately available for programming and disbursement.

Discussion - A.I.D. Policy Determination No. 5 on programming local currency stresses that local currency in special accounts be rapidly disbursed as closely as possible to the time imports are used. In order to do this, funds have to be promptly deposited.

Deposits of about \$14.9 million of local currency from CIPs in Tunisia into special accounts were delayed by about four months. Commodities such as corn and soy pellets are sold within two months after arrival in Tunisia, according to Office of Cereals officials responsible for selling the commodities. The local currency derived from sales could therefore normally be deposited within two months after commodity arrival. The deposits, however, were delayed by four additional months.

For example, the 1987 commodities arrived in Tunisia during December 1987 and January 1988. The commodities were sold within two months but the proceeds equalling about \$7.6 million were not deposited into the special account until June and July 1988. During the four intervening months, the \$7.6 million was potentially available for investment, which, at a seven percent interest rate, would have yielded a return equalling about \$175,000. The audit could not determine if someone benefited from investing the funds since the proceeds from selling CIP commodities were commingled at the Office of Cereals with proceeds received from selling other commodities.

Prompt deposits were not required by the grant agreements. A six-month period between commodity arrival and deposit of local currency into special accounts was allowed in the 1987 and 1988 agreements. According to Mission officials, the host government requested the six months to coincide with host government fiscal year cycles but the rationale for the request was unclear since it did not exist in writing. A Government of Tunisia official responsible for liaison with USAID/Tunisia agreed with the auditors that local currency should be immediately deposited in the special accounts after commodity sales.

As a result of delays in deposit, local currency generated under CIPs in Tunisia was not immediately available for programming and disbursement. Instead, the funds were vulnerable for a period of time to unauthorized uses.

Considering the lack of written justification for delaying deposits, we believe the host government should be asked to promptly deposit sums under existing and future agreements.

Recommendation No. 1

We recommend that the Director, USAID/Tunisia (a) require in future Commodity Import Program agreements that local currency be deposited into special accounts no later than 90 days after completion of commodity discharge at the port and (b) request that sums due under existing agreements be promptly deposited.

The Mission implemented the recommendation but suggested that a more realistic timeframe for depositing local currency in special accounts would be a period of 90 days following completion of commodity discharge at the port (see Appendices 1 and 3). We amended the recommendation to reflect the Mission's suggested wording. Based on Mission action, Recommendation No. 1 is closed.

2. Local Currency Special Accounts Were Not Interest-Bearing - A.I.D. policy encourages depositing local currencies into interest-bearing special accounts. In Tunisia, non-interest-bearing special accounts were established for depositing about \$14.9 million of local currency generated under Commodity Import Programs. According to Mission officials, the host government was against depositing funds in interest-bearing special accounts because this was contrary to their policy for local currency generated under bilateral programs. Had the special accounts been interest-bearing, earnings of about \$900,000 could have been available to the host government for additional programming.

Discussion - A.I.D. Policy Determination No. 5 states that "A.I.D. policy favors that local currency be placed into an interest-bearing account in a deposit-taking institution, with any interest earned programmed as if it were principal". The policy particularly encourages such accounts when local currency is not rapidly disbursed. Missions may prepare a written determination not to follow A.I.D.'s preference for interest bearing special accounts, copies of which must be forwarded to the appropriate regional Assistant Administrator and the Bureau for Program and Policy Coordination.

For the 1986 CIP program, about \$4.5 million in local currency was deposited into a non-interest-bearing special account at the Central Bank and later moved to the Tunisian Treasury. The equivalent of about \$7.6 million from the 1987 program was deposited in non-interest-bearing special

accounts at the Treasury. The \$2.8 million from the 1988 program was scheduled to be deposited in a non-interest bearing account also at the Treasury.

According to Mission officials, the host government did not want to deposit funds in interest-bearing special accounts. A memorandum in the Mission files implied that such accounts were possible if agreement could be reached between A.I.D., the Government of Tunisia and a commercial or development bank. Such an agreement was not executed, however, since this was against host country policy for local currency generated under bilateral programs.

Had the \$14.9 million in CIP local currency been placed in short term certificates of deposit available at a Tunisian public sector bank, interest earnings of about \$900,000 would have been made available for programming. The calculation assumes that account balances earned seven percent interest available on 90 day certificates of deposit, the same savings instrument used to earn interest on U.S. owned local currency generated by the Mission P.L. 480 Section 108 program. The calculation also assumes the prompt deposit of funds upon sale of commodities, that is about two months after commodities arrived in Tunisia.

Delays in disbursement from the special account created another lost opportunity to earn interest. For example, the host government delayed about six months the submission of a proposal to spend about \$3.8 million from the 1986 program and a request to spend the balance equalling about \$691,400 had not been received. Additionally, although the Mission approved the \$3.8 million, eight more months went by before the host government transferred about \$2.5 million from the special account to the approved activity; the remaining \$1.3 million had not been transferred as of November 1988, about 20 months after deposit.

Another benefit of interest-bearing accounts would be routine provision of periodic account statements. Since such statements were not routinely provided by the Central Bank and the Treasury, the Mission was not aware of an unprogrammed balance equalling \$691,400 in the 1986 special account until so informed by the auditors. Likewise, the Mission was not informed about a 1987 local currency transfer equalling about \$4.5 million from the Central Bank to the Treasury. Further the host government did not disclose its reason for splitting a deposit of 1987 special account proceeds, nor the basis for determining the amount

of the first deposit equalling about \$2.6 million, nor the date of the second deposit equalling about \$5 million. In October 1988, the host government submitted its first account statement to the Mission but the statement contained mathematical errors and omitted transaction dates and details of two 1987 deposits. Mission officials agreed with the need to closely monitor these periodic account statements.

Recommendation No. 2

We recommend that the Director, USAID/Tunisia, request that the Government of Tunisia deposit local currency generated under future Commodity Import Programs into interest-bearing special accounts.

The Mission implemented the recommendation. However, the Government of Tunisia refused the Mission's request so the Mission executed a written determination not to follow A.I.D.'s preference for interest-bearing special accounts (see Appendix No. 4). Based on Mission action, recommendation No. 2 is closed.

3. Information On Special Account Activity Was Not Furnished to A.I.D./Washington - USAID/Tunisia did not provide sufficient information needed to prepare A.I.D.'s worldwide Status of Foreign Currency Funds report (W-213). Consequently, the W-213 report, a primary source of information to Federal policy makers and managers, omitted information on local currency generated by Commodity Import Programs in Tunisia. Moreover, the report apparently omitted similar information from other countries. A principal reason for the omissions was the lack of clarity in A.I.D. Handbook 19 on the format and content of information needed. Omissions in the W-213 report are an audit issue since materially inaccurate reports constitute an internal control weakness.

Discussion - Missions should provide information to Washington on special accounts containing local currency generated under CIPs. According to the Controller's Office in Washington, Missions should provide the information via the U-205 report entitled "Counterpart Fund Special Account - Trial Balance and Related Summaries".

The U-205 information is used to prepare A.I.D.'s worldwide "Status of Foreign Currency Funds" report (W-213). The information is shown as "Special Counterpart Account -

Type B", which is defined as local currencies generated under A.I.D. dollar loans or grants, deposited in special accounts in the custody of participating governments, and used for activities mutually agreed upon by the U.S. and the participating country.

The audit found that USAID/Tunisia had not prepared U-205 reports. The Mission correctly forwarded other reports to Washington on activities and balances of P.L. 480 and Trust Fund local currency accounts.

As a result, the W-213 report omitted information on local currency generated by CIPs in Tunisia. Exhibit 2 shows that, as of June 30, 1988, there were no Type B accounts listed for Tunisia although a balance of about \$4.5 million existed in the CIP special accounts. The report correctly showed balances in P.L. 480 and Trust Fund accounts.

The W-213 apparently omitted information on special accounts from other countries. For example, A.I.D. granted about \$200 million to 16 African countries between 1985 and 1988 under the African Economic Policy Reform Program. These grants usually result in local currency special accounts. The definition of Type B accounts as contained in the W-213 narrative apparently would include these special accounts. However, the June 1988 W-213 report shows Type B account activity in only 4 of the 16 countries.

A principal reason for the omission was the lack of clarity in A.I.D. Handbook 19 on Mission responsibility to prepare the U-205 report. The Handbook provided the U-205 report title but did not provide a report format nor instructions on preparing the report. According to the A.I.D./Washington Controller's Office, A.I.D. Handbook 19 does not provide sufficient guidance on the content and format of the U-205 report.

The W-213 report is a primary source of information available to A.I.D., Treasury and the Congress to set policy and manage U.S. Government controlled foreign currencies. Given the scarcity of A.I.D. resources and the need for effective management of local currency, accurate reporting is essential.

Recommendation No. 3

We recommend that the Director, USAID/Tunisia, provide information to A.I.D./Washington on Commodity Import Program special account activity.

Recommendation No. 4

We recommend that the Deputy Controller for Financial Policy and Systems, A.I.D./Washington, clarify guidance to Missions on how to report information regarding Special Account Type B local currency.

USAID/Tunisia obtained the U-205 report format and planned to complete and forward it to A.I.D./Washington. Recommendation No. 3 is resolved and can be closed when the U-205 report is sent to Washington.

The Office of the Deputy Controller for Overseas Operations agreed with Recommendation No. 4 and instructed its staff to update handbook documentation on procedures for reporting on foreign currencies. They subsequently informed us that action on implementing the recommendation should be assigned to the Deputy Controller for Financial Policy and Systems, who will be initiating a review of reporting requirements for all foreign currency, including Special Account Type B. We have changed the recommendation accordingly. Based on action taken, Recommendation No. 4 is considered resolved and can be closed when the updated handbook documentation is finalized.

AUDIT OF
COMMODITY IMPORT PROGRAMS
IN TUNISIA

EXHIBITS AND APPENDICES

STATUS OF
COMMODITY IMPORT PROGRAM FUNDS IN TUNISIA
(As of November 15, 1988)

<u>Dollar Grant</u>		<u>Amounts of Local Currency</u> (dollar equivalent)				
<u>Fiscal Year</u>	<u>Amount</u>	<u>Deposited In Special Account</u> (A)	<u>Programming Approved By USAID</u> (B)	<u>Transferred From Special Account To Approved Activity</u> (C)	<u>Not Yet Transferred To Approved Activity</u> (A - C)	<u>Not Yet Programmed</u> (A - B)
1986	\$4,774,000	\$4,462,400	\$3,771,000	\$2,477,427	\$1,984,973	\$691,400 <u>c/</u>
1987	8,258,000	7,626,400	1,918,700	1,918,700	5,707,700	5,707,700 <u>d/</u>
1988	3,355,000	0 <u>a/</u>	0 <u>a/</u>	0 <u>a/</u>	2,837,152	2,837,152
1989	4,500,000	Unknown <u>b/</u>	Unknown <u>b/</u>	Unknown <u>b/</u>	Unknown <u>b/</u>	Unknown <u>b/</u>
<u>Total</u>	<u>\$20,887,000</u>	<u>\$12,088,800</u>	<u>\$5,689,700</u>	<u>\$4,396,127</u>	<u>\$10,529,825</u>	<u>\$9,236,252</u>

a/ Commodities had been sold but, at the time of our audit, local currency generated from the sale equalling about \$2.8 million was not scheduled to be deposited until January 1989. Provisions of the grant agreement allowed a six-month timeframe for deposit after arrival of commodities in country.

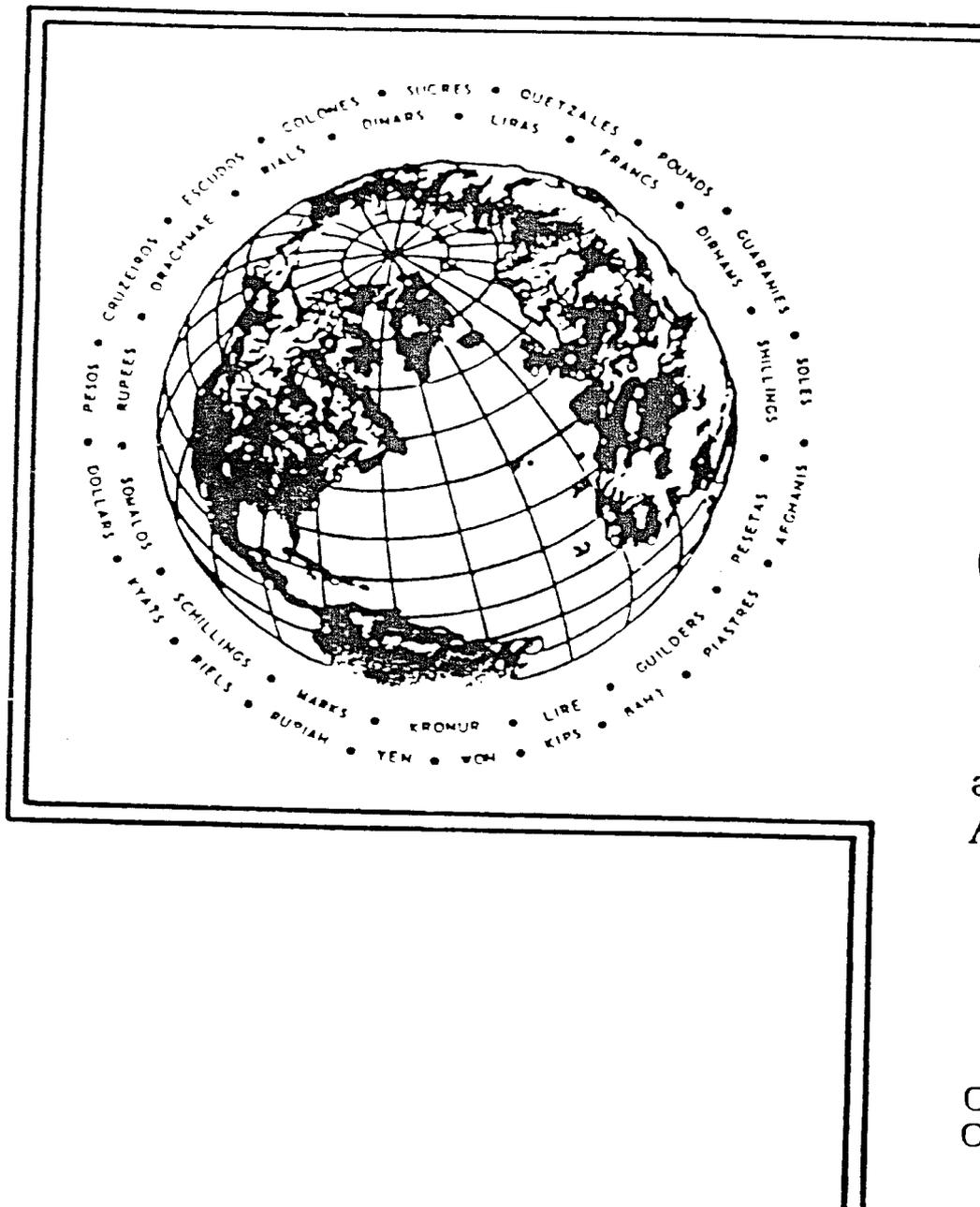
b/ At the time of audit, commodities provided under the 1989 CIP had not yet been sold.

c/ The audit found that this sum had been in the special account for 20 months but had been overlooked for programming. As a result of the audit, host government and Mission officials were planning to program the funds.

d/ The Mission was withholding approval of a host government programming request until policy changes were implemented including reduced subsidies for cereals. This sum had been in the special account for four months.

W-213

June 30, 1988



STATUS OF FOREIGN CURRENCY FUNDS

administered by the
Agency for International Development

Central Accounting Division
Office of Financial Management

FOREWORD (Continued)

COUNTRY OWNED

Special Counterpart Account — Type A

These currencies, which are in the custody of the participating government, were generated by A.I.D. or predecessor agencies dollar disbursements for grant aid to such countries pursuant to Section 602 of the Act for International Development. They are available for the general purposes set forth in applicable bilateral agreements which, when reduced to specific projects are mutually agreed upon by the U.S. and the participating country.

Special Counterpart Account — Type B

These currencies which are in the custody of the participating government, were generated under A.I.D. dollar loans or grants which required counterpart deposits by the participating government in a "Special Account." They are available for activities as mutually agreed upon by the U.S. and the participating country.

Special Counterpart Account — Type C (P.L. 480, Title III)

In some instances, commodities furnished by Commodity Credit Corporation for disaster relief are sold internally by the receiving country. Any proceeds accruing from such sales are required to be deposited in this account and may be withdrawn by the cooperating country for purposes mutually agreed upon by the U.S. and the participating country.

Special Counterpart Account — Type D

These currencies, which are in the custody of the participating government were generated under Title I, (formerly Title IV), P.L. 480, as Amended. The Government of the importing country deposits the proceeds accruing to it from the sale of commodities financed under a dollar and/or convertible local currency credit sales agreement into a "Special Account." These currencies are available for purposes mutually agreed upon by the U.S. and the participating country.

Trust Fund — FT800, Advances for Technical Assistance

These are currencies deposited by participating countries to be held in trust and used only for specific purposes designated by the participating country. In the event of liquidation, unused balances in these accounts would be returned to the participating country.

Trust Fund — FT860, Endowment for American University in Cairo

Authorized by P.L. 99-88 dated August 15, 1985.

FISCAL YEAR 1988 ACTIVITY
SPECIAL COUNTERPART ACCOUNT - TYPE "A"

Region and Country	Type of Currency	Unexpended Balance 9-30 87		Deposits		Obligations	
		Foreign Currency Units	Dollar Equivalent	Foreign Currency Units	Dollar Equivalent	Foreign Currency Units	Dollar Equivalent
ASIA							
Philippines	Pesos	11,815	\$ 575	71,609	\$ 3,400	68,382	\$ 3,253
NEAR EAST							
Arab Rep. of Egypt	Pounds	580,623	\$ 266,066	329,325	\$ 149,046	549,262	\$ 248,036
Israel	Shekels	405	252	---	---	---	---
Jordan	Dinars	4,806	14,156	8,831	25,786	10,644	30,965
Region Total			\$ 280,474		\$ 174,832		\$ 279,001
AFRICA							
Kenya	Shillings	288,114	\$ 17,568	179,528	\$ 10,619	301,016	\$ 17,751
Madagascar	Francs	3,827,000	2,831	871,300	664	175,200	135
Maliawi	Kwachas	---	---	3,291	1,466	14	6
Rwanda	Francs	301,407	3,816	---	---	237,476	3,139
Zambia	Kwachas	433,907	55,204	45,679	5,611	164,529	21,011
Region Total			\$ 79,419		\$ 18,560		\$ 42,042
GRAND TOTAL			\$ 360,471		\$ 196,792		\$ 324,296

SPECIAL COUNTERPART ACCOUNT - TYPE "B"

LATIN AMERICA							
Brazil	Cruzados	14	\$ *	---	\$ ---	13	\$ *
Costa Rica	Colones	2,268	36	373	5	857	12
Region Total			\$ 36		\$ 5		\$ 12
AFRICA							
Mauritius	Rupees	6,959	\$ 525	13,961	\$ 777	1,000	\$ 80
Niger	C.F.A. Francs	3,942,400	12,968	826,552	2,905	1,721,589	5,766
Seychelles	Rupees	9,803	1,723	10,676	1,914	10,386	1,913
Sudan	Pounds	207,626	83,889	129,063	29,002	60,544	13,605
Uganda	Shillings	13,853	231	124,369	2,072	104,528	1,742
Zaire Republic	Zaires	77,534	613	2,294,698	17,483	1,664,668	12,246
Zimbabwe	Z. Dollars	68,216	40,436	2,996	1,778	16,204	9,442
Region Total			\$ 140,385		\$ 55,931		\$ 44,794
GRAND TOTAL			\$ 140,421		\$ 55,936		\$ 44,806

*Less than 1,000.00

NOTE: ALL FIGURES ROUNDED TO THOUSANDS.

FISCAL YEAR 1988 ACTIVITY
SPECIAL COUNTERPART ACCOUNT - TYPE "A"

Disbursements		(Loss) or Gain By Exchange	Unexpended Balance 6-30-88		Unobligated Balance 6-30-88	
Foreign Currency Units	Dollar Equivalent		Foreign Currency Units	Dollar Equivalent	Foreign Currency Units	Dollar Equivalent
68,382	\$ 3,253	\$ (8)	15,042	\$ 717	8,416	\$ 401
199,428	\$ 90,106	\$ (13,696)	710,720	\$ 311,310	360,886	\$ 158,075
----	----	5	405	257	405	257
10,644	30,965	(629)	2,993	8,348	2,993	8,348
	\$ 121,071	\$ (14,320)		\$ 319,915		\$ 166,680
301,016	\$ 17,751	\$ (760)	166,626	\$ 9,676	166,626	\$ 9,676
175,200	135	95	4,523,100	3,455	4,523,100	3,455
14	6	(127)	3,277	1,333	3,277	1,333
237,476	3,139	185	63,931	862	63,931	862
164,529	21,011	130	315,057	40,134	315,057	40,134
	\$ 42,042	\$ (477)		\$ 55,460		\$ 55,460
	\$ 166,366	\$ (14,805)		\$ 376,092		\$ 222,541

SPECIAL COUNTERPART ACCOUNT - TYPE "B"

14	\$ •	\$ •	----	\$ ----	----	\$ ----
----	-----	(6)	2,641	35	1,784	23
	\$ •	\$ (6)		\$ 35		\$ 23
1,000	\$ 80	\$ 289	19,920	\$ 1,511	19,920	\$ 1,511
1,721,589	5,766	401	3,047,363	10,508	3,047,363	10,508
10,386	1,913	205	10,093	1,929	10,093	1,929
78,279	17,590	(37,232)	258,410	58,069	222,875	50,084
104,528	1,742	10	33,694	571	33,694	571
1,664,668	12,246	(1,800)	707,564	4,050	707,564	4,050
16,204	9,442	(1,447)	55,008	31,325	55,008	31,325
	\$ 48,779	\$ (39,574)		\$ 107,963		\$ 99,978
	\$ 48,779	\$ (39,580)		\$ 107,998		\$ 100,001

ACTION: RIG-2 INFO: AMB DCM

VZCZCD:0021
RR RUFD:
DS RUEHTU 00695/21 0231517
ZNR UUUUU ZZH
R 231516Z JAN 89
FM AMEMBASSY TUNIS
TO AMEMBASSY DA AR 2908
BT
UNCLAS SECTION 11 OF 22 TUNIS 00695

LOC: 175
23 JAN 89 152
CN: 03413
CHRG: AID
DIST: RIG

AIDAC FOR RIG/A/DAKAR

R.C. 12354: R/A
SUBJECT: AUDIT OF COMMODITY IMPORT PROGRAMS IN TUNISIA

MISSION FINDS DRAFT AUDIT OF CIP IN TUNISIA, WHICH WAS RECEIVED 12-30-88, FAIR AND USEFUL. THE COMMENTS OFFERED BELOW ARE KEYED TO THE SPECIFIC RECOMMENDATIONS. MISSION IS FOUCHING SUPPORTING DOCUMENTS TO RIG/A/DAKAR ATN L. HIRSCHLER.

1. RECOMMENDATION NO. 1 (A) WHILE WE AGREE WITH THE NEED TO ACCELERATE THE DEPOSIT OF LOCAL CURRENCY INTO A SPECIAL ACCOUNT WE BELIEVE THAT SETTING THAT DEADLINE AS TWO YEARS AFTER COMPLETION OF SALES OF COMMODITY CONCLUDED IS OVERLY TIGHT. WE SUGGEST THAT IN ACCORDANCE WITH NORMAL A.I.D. PROCEDURES A PERIOD OF 90 DAYS BE PERMITTED TO MAKE THE DEPOSIT. TIME WOULD START RUNNING ON COMPLETION OF DISCHARGE OF COMMODITIES AT THE PORT. THE GOT HAS INFORMED THAT NORMALLY IT TAKES TWO MONTHS TO SELL THE COMMODITIES. BASED ON EXPERIENCE TO DATE USAID BELIEVES THAT ONE MONTH TO COMPLETE THE PAPER WORK ATTENDING THE TRANSFER OF FUNDS FROM THE OFFICE OF CEREALS TO THE TREASURY AND HENCE TO THE SPECIAL ACCOUNT APPEARS REASONABLE. WE DO NOT THINK THAT A TWO WEEK PERIOD TO CONCLUDE THE TRANSFER IS A REALISTIC ESTIMATE.

IN THE DISCUSSION OF THIS ASPECT OF RECOMMENDATION ONE, WE REQUEST THAT THE LAST SENTENCE ON PAGE 6 OF THE DRAFT AUDIT BE REWRITTEN AS FOLLOWS TO MORE ACCURATELY REFLECT MISSION UNDERSTANDING ON THE TIMING OF LOCAL CURRENCY DEPOSITS. QUOTE ACCORDING TO MISSION OFFICIALS, THE HOST GOVERNMENT REQUESTED THE SIX MONTHS TO COINCIDE WITH GOT FISCAL YEAR BUDGET CYCLES BUT THE RATIONALE FOR THE REQUEST WAS UNCLEAR SINCE IT WAS NOT WRITTEN. END QUOTE. AS BACKGROUND TO THIS STATEMENT, THE RECORD SHOULD REFLECT THAT THE MISSION WAS TOLD AT THE TIME OF NEGOTIATION OF THE FY 1987 CIP THAT AS CIP COMMODITIES WOULD ARRIVE IN JULY 1987, IF THREE MONTHS ONLY WERE PERMITTED, A DEPOSIT TO A SPECIAL ACCOUNT WOULD BE REQUIRED AT END SEPTEMBER OR EARLY OCTOBER 1987. THE GOT INFORMED USAID THAT THE SPECIAL ACCOUNT EXISTENCE HAD TO BE REFLECTED IN A BUDGET LINE ITEM WHICH DID NOT EXIST IN THE TUNISIAN FY 87 BUDGET. THE MISSION WAS TOLD THAT THEREFORE A DEPOSIT COULD NOT BE MADE UNTIL JANUARY 1, 1988, WHEN THE FY 1988 BUDGET WAS

PROMULGATED. THUS, SIX MONTHS WERE NEEDED AND REQUESTED. USAID DID NOT ASSUME THAT LINE ITEMS WERE VALID FOR MULTIYEARS. GIVEN GOT STATEMENT ON P 7 OF DRAFT AUDIT USAID NOW SPECULATES THAT ONCE A LINE ITEM IS ESTABLISHED AND CONTAINS ASSETS, DEPOSITS CAN BE MADE AT ANY TIME TO SUB ITEMS IN THE LINE WITHOUT WAITING FOR A NEW FY. MISSION DID NOT PICK UP THIS SUBTLY IN SUBSEQUENT NEGOTIATIONS. GIVEN GOT POSITION ON TIMING OF DEPOSITS WE CONCUR WITH REDUCING TIME TO MAKE DEPOSIT FROM SIX TO THREE MONTHS.

REGARDING RECOMMENDATION 1B, THE OFFICE OF CEREALS REQUESTED THE TREASURY TO EFFECT THE DEPOSIT FOR THE FY 1988 CIP TO THE SPECIAL ACCOUNT IN EARLY JANUARY 1989. THE PAPER WORK IS EXPECTED TO BE COMPLETED MOMENTARILY. WITH REGARD TO THE FY 1989 CIP, THE GRANT AGREEMENT REQUIRES FUNDING EQUIVALENT TO THE PURCHASE PRICE OF LOCUST AIRCRAFT TO BE DEPOSITED IN A SPECIAL ACCOUNT NO MORE THAN 15 DAYS FOLLOWING ARRIVAL OF AIRCRAFT IN COUNTRY AND ACCEPTANCE OF THE COMMODITY BY THE GOT. WE HAVE INFORMED GOT MIN PLAN OF OUR DESIRE TO HAVE THE PROCEEDS FROM SALE OF FEED GRAINS DEPOSITED IN A SPECIAL ACCOUNT THREE MONTHS AFTER PORT DISCHARGE COMPLETED AND HAVE WRITTEN TO THE OFFICE OF CEREALS REQUESTING THIS BE DONE. A COPY OF THIS LETTER IS BEING POUCHED TO RIG/A/DAKAR. THE GOT MINISTRY OF PLAN HAS BEEN ADVISED THAT SHOULD THERE BE A CIP IN FY 90, THE TIME PERMITTED TO MAKE THE DEPOSIT IN THE SPECIAL ACCOUNT WILL NOT EXCEED THREE MONTHS FROM DATE OF CONCLUSION OF DISCHARGE AT PORT.

2. PER RECOMMENDATION TWO, THE GOVERNMENT OF TUNISIA WAS REQUESTED TO DEPOSIT LOCAL CURRENCY UNDER CIP PROGRAMS INTO INTEREST BEARING ACCOUNTS. THEY INFORMED USAID THAT THIS WAS AGAINST GOT POLICY FOR LOCAL CURRENCY GENERATED UNDER BILATERAL PROGRAMS. PURSUANT TO THESE EFFORTS THE MISSION EXECUTED A WRITTEN DETERMINATION, AS AUTHORIZED BY PD NO. 5 NOT TO FOLLOW A.I.D.'S PREFERENCE FOR INTEREST BEARING SPECIAL ACCOUNT. THIS DETERMINATION, BEING POUCHED, WAS EXECUTED ON DECEMBER 9, 1988 AND FORWARDED TO DAA/ANE AND PPC/PDPR ON DECEMBER 13, 1988.

3. THE USAID CONTROLLER HAS OBTAINED THE FORMAT FOR THE

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REPORT ENTITLED COUNTERPART FUND SPECIAL ACCOUNT - TRIAL BALANCE AND SUMMARY OF COST TRANSACTIONS, U-205 AND PLANS TO COMPLETE AND FORWARD THE REPORT TO AID/W O/A MID FEBRUARY. A COPY OF THIS WILL BE FURNISHED RIG/A/DAKAR WHEN ISSUED. THE MISSION INTENDS TO CONTINUE THIS REPORTING AS REQUIRED UNTIL THE ACCOUNTS ARE CLOSED.

4. RECOMMENDATION 4 IS FOR AID WASHINGTON SO MISSION WILL NOT COMMENT.

5. WITH REGARD TO EXHIBIT 1, THE MISSION WAS INFORMED BY THE GOT ON 1/16/89 THAT TD2.553.437 WAS BEING TRANSFERRED TO THE SPECIAL ACCOUNT. IN ADDITION ON 1.2.89 TD2.6 MILLION OF FY 1987 LOCAL CURRENCY WAS TRANSFERRED FROM THE SPECIAL ACCOUNT TO AN APPROVED ACTIVITY. THE PROGRAMMING OF THESE FUNDS WAS APPROVED ON 12.10.88. SHOULD YOU WISH TO UPDATE YOUR EXHIBIT 1 TO REFLECT THESE LATEST DATA, PLEASE NOTE THAT THE DOLLAR HAS STRENGTHENED SIGNIFICANTLY AGAINST THE DINAR WITH THE RATE NOW BEING 0.917.4 TD PER U.S. 1.00 AS OPPOSED TO THE 2.886 RATE WHICH EXISTED FOR MUCH OF CY 1988.

6. THE GOT IS IN THE PROCESS OF RESUBMITTING A BUDGET FOR THAT PORTION OF THE FY 1986 CIP FUNDS WHICH REMAIN UNPROGRAMMED AND WE EXPECT TO RECEIVE AND APPROVE THE REVISED PROGRAM SHORTLY.

7. WE APPRECIATE BEING GIVEN THE OPPORTUNITY TO COMMENT AND HOPE THAT OUR RESPONSES IN PARA 1 AND 2, ABOVE ARE SUFFICIENT TO PERMIT THOSE RECOMMENDATIONS TO BE CLOSED. ADVISE. DRAFTED PROG JON SPERLING: APPROVED DIRECTOR GEORGE CARNER). PELLETREAU

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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

MEMORANDUM

DATE: January 30, 1989

TO: RIG/A/Dakar, Paul Armstrong

FROM: PFM/FM, Mark Matthews

SUBJECT: Draft Audit Report on Commodity Import Programs
in Tunisia, December 23, 1988

I have reviewed the subject draft audit report and concur in your findings. Recommendation number 4 which was assigned to me in your draft should be assigned to the Deputy Controller for Financial Policy and Systems. They will be initiating a review of reporting requirements for all foreign currency including Special Account Type B.

January 20, 1989

Mr. Mohamed Bechir Ben Ismail
 President Director General
 Office of Cereals
 Rue Alain Savary
 Tunis

SUBJECT: Commodity Import Program (CIP)
 Grant No. 664-K-603 - Local Currency Deposit

Dear Mr. Ben Ismail:

The AID Mission has just received a draft report of the Audit of Commodity Import Programs in Tunisia. The audit report finds the amount of time between delivery of CIP commodities and the deposit of the equivalent dinars into the special account excessively long. Mr. Sperling of the AID Mission has discussed this issue with Mr. Mestiri of the Ministry of Plan. We solicit your cooperation in this matter.

We request that the dinar proceeds from the sale of soymeal purchases under the FY 89 CIP agreement be deposited into the special Government of Tunisia Treasury account no later than three months after delivery of the soymeal. This time has been calculated using an estimated two months from end of discharge to complete sale of the product and one month to conclude the needed paperwork for the transaction.

Thank you for your cooperation.

Sincerely yours,


 Nancy M. Tumavick
 Assistant Director for
 Project Management

cc: Mr. Abdeljelil Azouz, DCI, Ministry of Plan
 Mr. Zine El Abidine Mestiri, DGC, Ministry of Plan
 PM, CONT, PROG, C+R-2

PH:NMTumavick:eea
 1/20/89-0568F

Clearances:
 FM:SMahjoub(draft)
 CONT:MSmith(draft)
 PROG:JSperling(draft)

ACTION MEMORANDUM FOR THE DIRECTOR

DATE: December 9, 1988

FROM: Jonathan L. Sperling, PROG 

SUBJECT: Determination regarding use of interest bearing accounts for Local Currency

REF: Supplemental Guidance on PD-5 10/21/87

ISSUE: GOT policy precludes paying interest on local currency accounts. A.I.D. policy, on the other hand, favors placement of local currency in interest bearing accounts. If Mission does not follow agency guidance, the Director must make a formal determination not to do so.

DISCUSSION: The referenced guidance states that "A.I.D. policy favors that local currency be placed into an interest-bearing account in a deposit-taking institution, with any interest earned programmed as if it were principal, so long as such accounts are permitted under host country law and regulation and do not undermine internationally-supported stabilization agreements and sound monetary policy. A determination not to follow A.I.D.'s preference for interest-bearing accounts may be made by the highest A.I.D. official at post. Copies of each determination shall be forwarded to the appropriate regional assistant administrator and PPC/PDPR. This policy supersedes the more flexible guidance in PD-5".

In negotiation for the CIP Agreement in March 1988 USAID requested that the funds be put in an interest bearing account at a private sector bank. The GOT rejected the proposal and because there was a political need to sign the CIP quickly (the first visit of the Ben Ali Government's foreign minister to the USA in late March) the negotiation was not pursued.

The proposal was raised again in October and November 1988 in connection with both the CIP and Section 416 negotiations. While the GOT had no difficulty in depositing local currency in a special account they noted that the payment of interest on local currency accounts of bilateral donors was against GOT policy. (The Mission has checked and confirmed this statement). They stated that to do so for the USA would set a precedent which other donors would insist on following. While U.S. local currency generations under CIP and 416 are expected to total between \$3-8 million per year, France and Italy each generate approximately \$100-\$125 million of local currency

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