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AUDIT
OF ACCOUNTABILITY FOR
LOCAL CURRENCY IN BOLIVIA

Audit Report No. 1-511-89-09
February 13, 1989

U. S. MAILING ADDRESS:
RIG/T
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AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987
also 32-3120 EXT. 2701-2703

February 13, 1989

MEMORANDUM

TO : USAID/Bolivia Director, G. Reginald Van Raalte

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

Coinage N. Gothard

SUBJECT: Audit of Accountability for Local Currency in Bolivia, Report No. 1-511-89-09

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of the local currency program in Bolivia. Five (5) copies of the subject audit report are enclosed for action.

There are seven (7) recommendations in the report. Recommendations No. 1, 2, 4, 5 and 6 call for actions by USAID/Bolivia. Recommendations No. 1; 2(c), (d), and (e); 4(b) and (c); 5; and 6(b) and (c) are resolved and may be closed upon satisfactory completion of planned and promised actions. Recommendations No. 2(a) and (b); 4(a); and 6(a) are unresolved. Please provide written notice within 30 days of any actions taken to implement resolved recommendations and any additional information you might want us to consider on the recommendations.

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

Enclosures: a/s

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February 13, 1989

MEMORANDUM

TO : AA/FVA, Phil Christenson

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

Coinage N. Gothard

SUBJECT: Audit of Accountability for Local Currency in Bolivia, Report No. 1-511-89-09

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of the local currency program in Bolivia. Five (5) copies of the subject audit report are enclosed for action.

There are seven (7) recommendations in the report. Recommendations No. 3, which is unresolved, and No. 7, which is resolved, call for actions by your Office. Please provide written notice within 30 days of actions taken to implement recommendation No. 7 and any additional information you might want us to consider on recommendation No. 3.

Enclosures: a/s

EXECUTIVE SUMMARY

Since 1978 several Public Law 480 and Economic Support Fund programs have been implemented in Bolivia with an aggregate value of $172 million. These programs have generated $134.5 million in local currency proceeds. Program management responsibilities were shared between USAID/Bolivia and two Bolivian government agencies; the Executive Secretariat and the Project Coordination and Control Unit. The local currency proceeds were required to be used to fund mutually agreed upon development initiatives.

The Office of the Regional Inspector General for Audit/Tegucigalpa made an economy and efficiency audit of USAID/Bolivia's and the Government of Bolivia's administration of the $134.5 million local currency program. Specific audit objectives were to: (1)test the adequacy of accounting and internal controls of both the Executive Secretariat and the Project Coordination and Control Unit, including the adequacy of their administration and organizational relationships, (2)evaluate the effectiveness of USAID/Bolivia's monitoring of the local currency program, and (3)review certain development projects for program results and effectiveness.

Accounting and internal controls of the Government of Bolivia's Executive Secretariat and its Project Coordination and Control Unit needed improvement. Their administration was ineffective and their organizational relationship was not clearly defined. USAID/Bolivia needed to assume a more active role in monitoring the program in order to better detect problems and ensure the accuracy of reporting. Program and financial weaknesses in the field adversely affected intended beneficiaries in four of the five activities that the audit tested. Also, the executing entities had not fully complied with Bolivian tax law.

USAID/Bolivia had recently initiated actions to correct some of these deficiencies. In order to improve accounting, internal control, and controls affecting the administration and organization of the Executive Secretariat and the Project Coordination and Control Unit, USAID/Bolivia had made preparations to install a new accounting system, reorganize the Executive Secretariat, and establish personnel procedures for use by the Executive Secretariat and the Project Coordination and Control Unit. In order to strengthen its monitoring capability, USAID/Bolivia had issued an April 1988 local order that formally defined the Mission's programming, implementing, and monitoring responsibilities. During the audit, USAID/Bolivia also formalized, through contract amendments, the scopes of work for certain in-house contractors assigned to monitor the local currency program; and it was in the process of recruiting another personal services contractor to work on local currency financial matters.

This report contains seven findings. The Government of Bolivia did not have adequate accounting and internal controls to ensure that local currency proceeds were used for agreed upon purposes. Moreover, the audit determined that the Government of Bolivia owed about $15.3 million equivalent in deposits and that USAID/Bolivia did not have accurate information on the status of deposit arrearages. Also, A.I.D. was considering an unjustified forgiveness of a $90.7 million Bolivian debt. In addition, certain loans were unjustifiably made and were not properly accounted for. Also, the Executive Secretariat and the UCCP were unable or unwilling to implement sound internal controls. Furthermore, these agencies had not made sufficient on-site financial reviews of the five local currency activities tested. Finally, the Public Law 480 Titles I and III local currency programs were not promoted or advertised in Bolivia.

Independent external auditors issued an adverse opinion for Bolivia's local currency program because the Government of Bolivia had not established effective accounting and internal controls. Also, USAID/Bolivia had not effectively utilized controller staff to monitor and review fiscal data pertaining to the program. Public Law 480 and Economic Support Fund agreements require the Government of Bolivia to maintain complete and accurate accounting records, while legislation and applicable policies stipulate that A.I.D. ensure that local currency proceeds be used for agreed upon purposes. Since the Government of Bolivia had not established adequate controls, independent external auditors could not certify, nor was there assurance, that the $93 million in local currency proceeds had been disbursed for mutually agreed upon purposes. We have recommended that USAID/Bolivia install adequate accounting and internal controls. With certain reservations, USAID/Bolivia has concurred with the recommendation. It is therefore resolved.

The Government of Bolivia had not deposited the equivalent of at least $15.3 million into the special accounts as required by the Public Law 480 agreements. Deposits were not made due to inefficient deposit procedures, exchange rate errors, an inability to collect a $7.8 million debt from the Bolivian military, and most importantly because the Government did not adhere to negotiated schedules for bringing delinquent deposits up to date. Although USAID/Bolivia was responsible for determining the status of the local currency deposits it lacked accurate information because it relied on host government reports which were not verified. Without the equivalent of $15.3 million available, certain development projects had been disrupted and delayed. We have recommended that USAID/Bolivia have the recipient government deposit into the special accounts over $800,000 equivalent due to exchange rate errors and increase pressure on the recipient government to make up the arrearages. USAID/Bolivia did not concur with the exchange rate issue and that portion of the recommendation is unresolved. They generally concurred with other portions of the recommendation; those portions are resolved.

Full forgiveness of debt owed by the Government of Bolivia for the $90.7 million 1978 PL 480 Title III program could not be obtained due to a purported $37 million equivalent loss incurred in Bolivia by exchange rate fluctuations, untimely deposits, and subsequent loss in value of disbursements. Pertinent legislation and the 1978 PL 480 Title III agreement permit full forgiveness of debt when the dollar equivalent of local currency is disbursed from the special account. The equivalent dollar value of local currency disbursed is to be computed at the highest legal exchange rate applicable on the date(s) of disbursement. However, A.I.D. and other responsible U.S. Government entities were considering granting full forgiveness based on the dollar value of the Bolivian peso when it was deposited, rather than the computed dollar value of local currency when it was disbursed from the special account. This proposal was not consistent with the agreement. Approval of the proposal would allow the recipient government to realize a $37 million equivalent windfall to the detriment of the U.S. Government and intended beneficiaries. We have recommended that the 1978 PL 480 Title III program not be fully forgiven at this time. A.I.D.'s Bureau for Food for Peace and Voluntary Assistance did not concur, and the recommendation is unresolved.

The Government of Bolivia's Executive Secretariat lent at least $13 million equivalent between the PL 480 programs and certain projects (interprogram loans), and lacked accounting controls for at least $2.9 million equivalent in loans executed with intermediate credit institutions. Interprogram loans were contrary to the intent of the local currency program. Even had the loans been justified, loans receivables accounts were required to effectively record, account for, and control the loans. Receivables were also required for the loans made to intermediate credit institutions. However, USAID/Bolivia had not periodically tested the Executive Secretariat's source documentation or accounting and internal controls, and therefore it did not know that loans receivables accounts did not exist. As a result, there was no assurance that loan repayments had been made or that proceeds had been used for agreed upon purposes. We have recommended that the practice of making interprogram loans cease, that the universe of interprogram loans be reconstructed, and that over $800,000 equivalent in interest and $1.3 million equivalent in unused funds lent to intermediate credit institutions be collected. USAID/Bolivia did not concur that interprogram loans were questionable but has concurred with the remaining portions, and they are resolved.

There are three additional findings in the report which are summarized here. First, our review of administrative controls (organization, staffing, planning, and supervision) in the Executive Secretariat and the Project Coordination and Control Unit disclosed weaknesses in all areas. We have recommended that USAID/Bolivia obtain evidence that acceptable administrative controls be implemented. USAID/Bolivia has generally concurred and the recommendation is resolved. Second, the Executive Secretariat and the Project Coordination and Control Unit had not made sufficient on-site financial reviews of the five local currency activities that we tested. We have recommended that certain systems be installed and that project vehicles be recovered. USAID/Bolivia needed to furnish information and implement certain actions to resolve the recommendation. Finally, A.I.D. policy was silent with respect to promoting and advertising Public Law Titles I and III local currency programs. A.I.D.'s Bureau for Food for Peace and Voluntary Assistance did not fully concur. The recommendation is resolved and may be closed when appropriate policy has been incorporated into the A.I.D. Handbook.

Office of the Inspector General

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PART I - INTRODUCTION

A. Background

From 1978 through 1988 USAID/Bolivia had implemented several Public Law (PL) 480 and Economic Support Fund (ESF) Programs in Bolivia with an aggregate value of $172 million. The sale of wheat through two PL 480 Title III food for development agreements and one Title I sales agreement, as well as cash transfer grants from the ESF agreements, had generated $134.5 million in local currency proceeds. Federal law, A.I.D. regulations, and written agreements between A.I.D. and the Bolivian government required that the proceeds be used to fund mutually agreed upon development initiatives.

The first agreement, a PL 480 Title III agreement between the Governments of Bolivia and the United States was signed on May 31, 1978. The cumulative value of shipments under the agreement was $90.7 million. The second, a PL 480 Title I agreement, was signed on February 4, 1985. The cumulative value of shipments under this agreement was $19.8 million. The third, a PL 480 Title III agreement, was signed on April 9, 1986. The cumulative value of shipments under this agreement was $39.9 million.

Three ESF agreements totaling almost $21.7 million were signed in June 1986, August 1987, and July 1988. Two of these ESF agreements have been addressed in another report entitled "Audit of USAID/Bolivia Economic Support Fund Programs", Audit Report No. 1-511-89-07 dated January 20, 1989.

There were three entities executing the local currency program in Bolivia. USAID/Bolivia designed, programed, and supervised development projects financed with local currency generations. A host government agency called the Executive Secretariat provided programming, approval, accounting, and supervision for the activities financed with these funds. The Project Coordination and Control Unit (UCCP), another host government entity, maintained financial records, audited vouchers, and disbursed funds jointly with the Executive Secretariat for the implementation of development projects. Intermediate credit institutions also participated by making subloans to approved development endeavors.

PL 480 inputs were more significant for the local currency program than the ESF contributions. By one account, the PL 480 program had served as USAID/Bolivia's single most important policy leverage instrument and had been successful in achieving a number of policy objectives. Also, USAID/Bolivia believed that the conversion of Public Law 480 wheat sales to local currency had relieved the pressure on Bolivia's foreign exchange, helped to maintain food supplies, and provided local currency to fund numerous development projects.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa (RIG/A/T) made an economy and efficiency audit of USAID/Bolivia's and the Government of Bolivia's administration of the $134.5 million local currency program. Specific audit objectives were to: (1)test the adequacy of accounting and internal controls of both the Executive Secretariat and the Project Coordination and Control Unit, including the adequacy of their administration and organizational relationships, (2)evaluate the effectiveness of USAID/Bolivia's monitoring of the local currency program, and (3)review certain development projects for program results and effectiveness.

The audit review of deposit and exchange rate practices covered $126 million (the PL 480 portion) of the $134.5 million in local currency that had been deposited into special accounts. Our assessment of selected recipients and credit institutions covered about $18.8 million equivalent of the verified $93 million equivalent that had been disbursed from the special accounts for mutually agreed upon development purposes. The audit was one in a series of reviews in the Latin America and Caribbean region to determine if A.I.D. missions had effectively implemented U.S. Government legislation, policies, and agreements affecting the administration of local currency.

Tests of accounting and internal controls included audit assessments of (a) financial reviews that had been made by independent external auditors with respect to the local currency program, (b) the status of local currency deposits and compliance with exchange rate criteria, and (c) lending practices of the Executive Secretariat and intermediate credit institutions. RIG/A/T reviewed staffing allocations and pertinent files and interviewed officials of the Executive Secretariat and the UCCP to determine if they had implemented effective administrative controls. We also reviewed pertinent files and interviewed officials of USAID/Bolivia to determine if USAID/Bolivia had effectively monitored the local currency program. We made field visits to three projects and two credit institutions to determine if local currency had been used for intended purposes. We limited reviews of internal controls and compliance to the seven findings and to the issue discussed in "Other Pertinent Matters" section of this report.

We performed the audit in Bolivia from March 7 to August 24, 1988. It covered the 10 year period of PL 480 activity from May 1978 through May 1988. USAID/Bolivia responded to our draft audit report on January 18, 1989, and did not agree with most of the issues presented therein. Those issues remain unresolved, where noted, in this report. We included USAID/Bolivia's comments and Office of Inspector General responses to specific management points of this report as appendix 1. On February 4, 1989, A.I.D.'s Bureau for Food for Peace and Voluntary Assistance responded by cable (STATE 35146) to draft recommendations No. 5 and 9. (These are now recommendations No. 3 and 7.) The Bureau did not concur with recommendation No. 3, and it is unresolved. The Bureau's response is included in this report as appendix 2. We performed the audit in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

Accounting and internal controls of the Government of Bolivia's Executive Secretariat and its Project Coordination and Control Unit needed improvement. Their administration was ineffective and their organizational relationship was not clearly defined. USAID/Bolivia needed to assume a more active role in monitoring the program in order to better detect problems and ensure the accuracy of reporting. Program and financial weaknesses in the field adversely affected intended beneficiaries in four of the five activities that the audit tested. Also, the executing entities had not fully complied with Bolivian tax law.

USAID/Bolivia had recently initiated actions to correct some of these deficiencies. In order to improve accounting, internal control, and controls affecting the administration and organization of the Executive Secretariat and the Project Coordination and Control Unit, USAID/Bolivia had made preparations to install a new accounting system, reorganize the Executive Secretariat, and establish personnel procedures for use by the Executive Secretariat and the Project Coordination and Control Unit. In order to strengthen its monitoring capability, USAID/Bolivia had issued an April 1988 local order that formally defined the Mission's programming, implementing, and monitoring responsibilities. During the audit, USAID/Bolivia also formalized, through contract amendments, the scopes of work for certain in-house contractors assigned to monitor the local currency program; and it was in the process of recruiting another personal services contractor to work on local currency financial matters.

This report contains seven findings. The Government of Bolivia did not have adequate accounting and internal controls to ensure that local currency proceeds were used for agreed upon purposes. Moreover, the audit determined that the Government of Bolivia owed about $15.3 million equivalent in deposits and that USAID/Bolivia did not have accurate information on the status of deposit arrearages. Also, A.I.D. was considering an unjustified forgiveness of a $90.7 million Bolivian debt. In addition, certain loans were unjustifiably made and were not properly accounted for. Also, the Executive Secretariat and the UCCP were unable or unwilling to implement sound internal controls. Furthermore, these agencies had not made sufficient on-site financial reviews of the five local currency activities tested. Finally, the Public Law 480 Titles I and III local currency programs were not promoted or advertised in Bolivia.

There are seven recommendations in this audit report. The report recommends that USAID/Bolivia take actions to reconstruct the executing entities' accounting records and to increase pressure on the recipient government to pay arrearages, correct exchange rate errors, and determine the extent of previously executed interprogram loans. We have also recommended that the 1978 PL 480 Title III program not be forgiven at this time, that evidence of reorganization in the executing entities is complete, and that unused funds be collected from intermediate credit institutions. Other recommendations are intended to improve financial reviews and to establish policy regarding advertising and publicity.

A. Findings and Recommendations

1. Local Currency Accounting and Internal Controls Were Deficient

Independent external auditors issued an adverse opinion for Bolivia's local currency program because the Government of Bolivia had not established effective accounting and internal controls. Also, USAID/Bolivia had not effectively utilized controller staff to monitor and review fiscal data pertaining to the program. Public Law 480 and Economic Support Fund agreements require the Government of Bolivia to maintain complete and accurate accounting records, while legislation and applicable policies stipulate that A.I.D. ensure that local currency proceeds be used for agreed upon purposes. Since the Government of Bolivia had not established adequate controls, independent external auditors could not certify, nor was there assurance, that the $93 million in local currency proceeds had been disbursed for mutually agreed upon purposes.

Recommendation No. 1

We recommend that USAID/Bolivia install appropriate accounting and internal controls by:

a. obtaining evidence that the Government of Bolivia has reconstructed accounting records for the Public Law 480 and Economic Support Fund local currency programs from May 1978 through June 31, 1989 and obtaining a certification from a public accounting firm that the local currency was used for intended purposes;

b. arranging for a concurrent audit of the local currency program, by an approved certified public accounting firm, from July 1989 on;

c. periodically reviewing source documentation supporting host government financial reports and providing assistance to correct any problems found; and

d. requiring USAID/Bolivia controller review and clearance of communications that contain fiscal data pertaining to Public Law 480 Titles I and III, and Economic Support Fund local currency programs.

Discussion

The Government of Bolivia's Executive Secretariat is to execute mutually agreed upon development projects and the Project Coordination and Control Unit (UCCP) is to provide the accountability requirements stipulated in the relevant PL 480 and ESF agreements. USAID/Bolivia is responsible for monitoring the local currency program. Tests of accounting and internal controls and subsequent certification by independent external auditors are one means of assuring that the accountability and monitoring requirements are being effectively implemented. Positive certification would denote that accounting and internal control systems and practices are adequate. In contrast, an adverse opinion would mean that serious accountability and internal control deficiencies exist.

Deficiencies in accounting and internal control practices of the recipient government were identified by the local accounting firm of Telleria Ormachea and Troche engaged by the Executive Secretariat in September 1987. The firm's 9 month financial review resulted in an "adverse opinion" regarding those accounting and internal controls used by the Executive Secretariat and the UCCP. This type of opinion is the most severe that can be issued under existing accounting standards. It advises that financial statements do not fairly present an entity's financial position and that results of operations or changes in financial position are not in conformity with generally accepted accounting principles.

The accounting firm found major discrepancies between the information provided by the two organizations. The financial review disclosed that the institutions' accounting records did not conform to generally accepted accounting principles, their balance sheets did not account for significant amounts of funding, accounts generally classified as expenses, such as exchange rate losses, were recorded as assets and vice versa, and both entities processed information on computers which they had not programmed to provide sufficient accounting information to serve as a basis for management decisions. Also, controls to prevent unauthorized alteration of accounting records were lacking. The accounting firm concluded in the review report that neither institutions' accounting procedures were adequate for the activity performed.

Although the two host country institutions maintained accounting records for deposits to the special accounts, neither of the institutions' financial reports could be confidently relied on to communicate accurate fiscal information. For example, a comparison of two Executive Secretariat summary reports for the same 1986 shipments disclosed a CCC disbursement discrepancy totaling $796,997. Also, the Government of Bolivia did not have adequate control systems to manage the program. For example, a July 1987 evaluation report advised USAID/Bolivia that accounting, internal control, and reporting problems existed with the Government of Bolivia's Executive Secretariat and UCCP as far back as June 1984. The evaluation report further advised USAID/Bolivia that many problems of the local currency program could be reduced by strengthening the financial department and by improving projections and financial controls within the Executive Secretariat.

Although the first PL 480 agreement was executed on May 31, 1978, evidence of an effective monitoring capability was absent until USAID/Bolivia executed three personal services contracts, one in March 1984 and two in May 1984. Another two personal services contracts were executed, one in November 1986 and the other in October 1987, to facilitate USAID/Bolivia's monitoring responsibilities. The three contractors having program expertise were assigned to USAID/Bolivia's Agriculture and Rural Development Office, and the two contractors having fiscal expertise were assigned to the Office of the Controller.

Even then, USAID/Bolivia did not effectively monitor the financial management practices of the Executive Secretariat and the UCCP. While the two USAID/Bolivia contractors assigned to the controller's office were available to perform detailed monitoring, program management personnel often did not request the controller's office to verify financial information submitted by host government agencies. Program management personnel may not have been fully aware of the need for verification since three previous financial reviews (the most recent one issued in July 1986) had given a generally positive impression of host government financial management practices. Had the contractors periodically reviewed source documents which supported host government financial reports, many of the problems would have been detected.

Moreover, USAID/Bolivia program management often did not obtain controller review or clearance for communications to A.I.D./Washington or for formal agreements with the host government in instances where the need for accurate, current, and valid fiscal data was critical. Instead, USAID/Bolivia relied on host government financial reports, thus several documents prepared by the Mission included erroneous information (for examples see appendix 3).

Controller review of recipient government fiscal data, as well as controller clearance of communications and formal agreements will assist in eliminating erroneous reporting and potentially embarrasing situations.

While the specific requirements vary slightly from agreement to agreement, the PL 480 and ESF program agreements require the Government of Bolivia to maintain complete and accurate information on the financial status of the programs. For example, the 1986 Title III program agreement requires the Executive Secretariat to "[m]aintain up-to-date, complete and accurate accounting for the Food for Development Program." The 1986 ESF memorandum of understanding requires the Government of Bolivia to "maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the agreement."

Legislation and A.I.D. policies require that local currency proceeds be used for economic development purposes and that A.I.D. monitor such usage. Section 106(b) of the Agricultural Trade Development and Assistance Act of 1954, as amended (PL 480), includes a requirement that sales agreements for agricultural commodities would include provisions to assure that local currency sales proceeds are used for agreed upon development purposes. The agreed upon purposes are to be stipulated in each PL 480 sales agreement and in subsequent amendments. A.I.D.'s Policy Determination No. 5 of February 1983, which focuses on PL 480 local currency generations, reiterates that A.I.D. must monitor the use of local currency sales proceeds and assure that they are allocated to support economic development objectives. Also, the fiscal year 1987 continuing resolution requires the establishment of separate accounts for local currency generated by cash transfer grants, such as ESF, that exceed $5 million so that A.I.D. may monitor the movement of proceeds.

Since accounting records and internal controls were inadequate, the equivalent of $93 million in PL 480 local currency managed by the Executive Secretariat and the UCCP was vulnerable to waste and misuse. To begin to correct problems of accounting and internal controls, USAID/Bolivia first needs to have the Executive Secretariat and the UCCP reconstruct their accounting records and obtain an independent certification that they have managed the local currency properly. The Mission should then arrange for a certified public accounting firm to make a concurrent audit of local currency programs from July 1989 forward. Finally, the Mission should periodically review the source documents supporting Executive Secretariat and UCCP financial reports, and provide assistance to correct any problems noted.

Management Comments

USAID/Bolivia pointed out that it could not comply with the dates previously included in recommendation No. 1, parts a. and b. They also said that an informal solicitation to reconstruct the accounting records resulted in an estimate of $175,000, a substantial cost for the benefits to be received. They said that the Executive Secretariat would reconstruct the records, and that certification for the reconstructed records would be obtained by the same accounting firm that makes the concurrent audit. On these bases, USAID/Bolivia suggested that parts a. and b. be deleted from this report. USAID/Bolivia did not respond to part c. and accepted part d. USAID/Bolivia requested that the discussion about errors in the draft 1988 PL 480 amendment be deleted from this report.

Office of Inspector General Comments

We have changed the target dates contained in parts a. and b. of recommendation No. 1 to facilitate management plans. Also, the means described by USAID/Bolivia to reconstruct records and their plans to obtain a positive certification are consistent with parts a. and b. of the recommendation. We have not deleted discussion concerning the draft 1988 PL 480 amendment (see appendix 3) and have addressed that issue in more detail in finding No. 2. Nonetheless, recommendation No. 1 is resolved and may be closed based upon the progress of management actions.

2. Delinquent Deposits Could Total More Than $15.3 Million

The Government of Bolivia had not deposited the equivalent of at least $15.3 million into the special accounts as required by the Public Law 480 agreements. Deposits were not made due to inefficient deposit procedures, exchange rate errors, an inability to collect a $7.8 million debt from the Bolivian military, and most importantly because the Government did not adhere to negotiated schedules for bringing delinquent deposits up to date. Although USAID/Bolivia was responsible for determining the status of the local currency deposits it lacked accurate information because it relied on host government reports which were not verified. Without the equivalent of $15.3 million available, certain development projects had been disrupted and delayed.

Recommendation No. 2

We recommend that USAID/Bolivia:

a. determine the selling rates on the dates that deposits were actually made into the Public Law 480 special accounts and have the Government of Bolivia make corresponding adjustments;

b. have the Government of Bolivia immediately deposit into the 1978 Public Law 480 Title III and 1985 Public Law 480 Title I special accounts $795,760 equivalent and $35,081 equivalent related to exchange rate errors, including any accrued interest; and reduce the arrearage balance owed the 1986 Public Law 480 Title III special account by an equivalent $10,972, including interest accrued. These values are based on audit review of errors made when the deposit vouchers were prepared;

c. ensure that no new deliveries of Public Law 480 financed wheat are made to Bolivia's Ministry of Defense or National Police without the prior knowledge of responsible authorities of both the Governments of Bolivia and the United States, and that USAID/Bolivia has written assurance from responsible Bolivia authorities that funds are available and necessary transfers into the special account(s) will be made;

d. advise the Government of Bolivia that if the repayment schedule established in the draft 1988 amendment to the 1986 Public Law 480 Title III agreement is not adhered to, that termination clauses in the applicable Public Law 480 agreements will be exercised; and

e. request responsible Government of Bolivia institutions to report to USAID/Bolivia the cummulative status of delinquent deposits as well as each deposit made during a reporting period.

Discussion

A review of Mission correspondence for the Public Law (PL) 480 programs indicated that ever since the early stages of the 1978 PL 480 Title III program, the Government of Bolivia (GOB) had not made agreed upon local currency deposits into the special accounts. During January 1981 for example, the Mission informed the U.S. Department of State that the principal topic of a host country PL 480 planning meeting was to discuss the subject of delinquent deposits owed by the GOB to the 1978 Title III special account, and to find ways to make additional deposits. Throughout the next seven years of the 1978 Title III program, as well as during the ensuing 1985 Title I and 1986 Title III programs, the GOB had a continuing record of not making required deposits to the PL 480 special accounts. (See appendix 5.) As of May 4, 1988, the GOB had not made deposits equivalent to $15.3 million within agreed upon time periods.

The three active PL 480 agreements required the GOB to deposit into special accounts the local currency equivalent of the dollar value of wheat shipped to Bolivia. In the 1978 Title III agreement, the GOB agreed to make deposits into the special account not later than six months after the date of disbursement by the Commodity Credit Corporation. In the 1985 Title I memorandum of understanding and 1986 Title III agreement, the recipient government agreed to make deposits no later than one month after shipment arrival and nine months after the shipment date, respectively. However, millions in anticipated deposits were not made due to four basic causes.

First, host country deposits were to be made using local currency proceeds generated from the sale of PL 480 commodities. The Millers' Association was authorized to make deposits to a special account as instructed by the Bolivian Treasury (TGN). In practice, proceeds were channeled through the TGN, and the TGN would then make deposits into the eligible special accounts. However, these deposit procedures were often counterproductive. From the time the Millers' Association deposited local currency proceeds into TGN subaccounts, to the time the TGN released these funds for deposit to the PL 480 special accounts, from 1 to 52 days may have elapsed. (On balance, the subaccounts set up by the TGN were ledger accounts, that is, proceeds generated through the subaccounts were related only to corresponding wheat shipments. Consequently, the ledger accounts maintained by the TGN were a reliable source for determining arrearages.) In combination with Bolivia's falling exchange rate, the more lengthy delays proved costly. An analysis of 1985 Title I program deposits found that of the reported $6.4 million in delinquent deposits, approximately $5.6 million or 87 percent was delinquent because the original deposits made by the Millers' Association were devalued during the lengthy fund transfers between Bolivia's government institutions.

Second, the PL 480 agreements required the GOB to use its selling rate(s) on the date(s) that deposits were made. The selling rate meant the exchange rate established by Bolivia's Central Bank to sell foreign exchange as opposed to the exchange rate established by the Bank to buy foreign exchange. The selling rate, an outflow of foreign exchange from the Bank, historically exceeded the buying rate. However, the special accounts were at least $819,859 short because responsible host government institutions used inappropriate exchange rates to record deposits for the PL 480 programs' three special accounts. (See exhibits 1, 2 and 3.)

Third, 51 percent of the outstanding debt was due to wheat flour sales made to Bolivia's Armed Forces and National Police. Briefly, from November 1986 to April 1988 the Millers' Association had delivered $7.8 million equivalent in wheat flour, from wheat shipped under the PL 480 Titles I and III programs, to Bolivia's Ministry of Defense and National Police. The two relevant PL 480 agreements called for the deposit of local currency into the corresponding special accounts not later that one month and nine months, respectively, after the date(s) of disbursement named by the Commodity Credit Corporation (CCC). By certain interministerial resolutions, the TGN was to transfer funds from the Ministry of Defense's budget to cover the purchase of the wheat flour by the Army and Air Force, but the TGN did not make the deposits into the special accounts because the budget allegedly had insufficient resources. The $7.8 million equivalent should have been deposited into the PL 480 special accounts by January 9, 1988. However, payment for the wheat deliveries had not been made by audit conclusion in August 1988.

Finally, the host government did not adhere to negotiated repayment schedules. A sampling of Mission correspondence regarding the delinquent deposit problem is shown below.

-- A September 18, 1987 memorandum to USAID/Bolivia's Deputy Director indicated that despite the Minister of Finance's verbal assurance that regular deposits would be made to the Titles I and III PL 480 special accounts, no deposits had been made since July 1987.

-- An October 13, 1987 letter from USAID/Bolivia's Director to the Minister of Finance noted that delinquent deposits of $3.4 million were owed to the 1978 PL 480 Title III Program, and $6.4 million to the 1985 PL 480 Title I Program. The letter noted that the Ministry of Finance did not adhere to its May 26, 1987 commitment to make monthly deposits to the programs' special accounts until all past arrearages were cancelled.

-- A February 29, 1988 letter from the Mission Director to the Minister of Finance informed that a promised January 1988 deposit had not been made, and that the Ministry's lack of compliance with the repayment schedule could jeopardize approval of a 1988 Title III amendment.

-- A March 4, 1988 internal Mission memorandum noted that there were still delays in host country deposits and that the host government wanted to propose a new repayment schedule. The memorandum added that delays and broken promises jeopardized approval of the 1988 PL 480 Title III amendment.

U.S. Government interagency instructions for managing the PL 480 programs held U.S. Government personnel responsible for accurately reporting on the status of host country deposits to the PL 480 special accounts. A.I.D. Handbook 9 for example, directed U.S. Government personnel"... to determine that the local currency equivalent of the dollars disbursed by CCC..." had been deposited by the importing country. USAID/Bolivia reported on the status of PL 480 deposit and disbursement balances. To ensure that the Mission had accurate financial information on the various

PL 480 programs, on April 28, 1988, USAID/Bolivia issued Local Order Number 19-7. In part this policy called for the Mission's controller office to serve as backstop to the Local Currency Monitoring Committee on all PL 480 financial management concerns.

However, in their reporting Mission officials did not accurately compute cumulative debt owed by the recipient government because they did not verify reporting to source documentation. As one example, inaccurate information on delinquent deposits was included in a draft amendment to the 1986 PL 480 Title III agreement. In this case, USAID/Bolivia had prepared a 1988 amendment to the 1986 PL 480 Title III agreement that was to be signed by May 13, 1988. In order to encourage payment of past delinquent deposits due PL 480 special accounts, Mission officials inserted into the amendment a repayment clause stating that, "The GOB [would agree] to deposit $1.0 million per month over 10 months into the PL 480 special account to cover past debt accumulated under the FY 78, FY 85 and FY 86 programs." Since this amendment "benchmark" construed past debt to be approximately $10 million but preliminary audit tests indicated that the delinquent deposit balance ("past accumulated debt") was considerably higher, Mission officials agreed to delay the signing of the 1988 amendment until the accumulated debt figure was verified by this audit.

The audit determined that as of May 4, 1988, the GOB owed $15,266,845 in deposits or a difference of $5.3 million from that included in the proposed 1988 amendment. The $15.3 million arrearage was based on the record of transfers made by Bolivia's Treasury Department rather than on reporting provided by the Executive Secretariat and the UCCP. Had the incorrect figure been included in a signed 1988 amendment, the Government of Bolivia could have interpreted this as contractually relieving them of the responsibility for paying $5.3 million in past delinquent deposits. The Mission concurred and changed the draft 1988 amendment (which had yet to be signed).

Because the host country had not made $15.3 million equivalent in required deposits, a liquidity crisis was created for the local currency program. As a result, the progress of many development projects was interrupted and delayed. For example, a USAID/Bolivia, July 21, 1987 internal memorandum noted that the deposit arrearages continued "... to stall the implementation of many program sub-projects and efficiency of operations [was] reduced." Mission minutes of a December 1987, PL 480 Committee Meeting also brought out the fact that a Title I and Title III liquidity shortage had created a "real crisis" with those programs. The correspondence noted that the liquidity shortage had caused severe difficulty to on-going PL 480 activities and had threatened the signing of the 1988 amendment to the 1986 Title III Program.

In summary, the recipient government needed to improve controls over exchange rate calculations and be held accountable for millions of equivalent dollars in arrearages. Also, recipient government reporting of delinquent deposits needed to be improved. Coupled with the verification techniques contained in recommendation No. 1, USAID/Bolivia should be able to improve its monitorship of the local currency program.

Management Comments

USAID/Bolivia did not agree that there were exchange rate errors because an October 19, 1988 cable (STATE 339785) advised that the level of local currency to be deposited was to be calculated by using the exchange rate on the day(s) of the CCC credit disbursement(s). Therefore, they believed that there was no exchange rate issue. USAID/Bolivia also pointed out that the $7.8 million equivalent owed by Bolivia's military and police was already addressed in the repayment schedule, and suggested that other language regarding this debt would be more actionable. Finally, USAID/Bolivia was in agreement "as to the severity of the GOB's compliance with repayment schedules" and stated that the Government of Bolivia had been advised that future programs would be in jeopardy if agreed upon repayment schedules were not honored.

Office of Inspector General Comments

The "disbursement dates" established by the CCC for wheat shipments merely started the clock for the Government of Bolivia to make local currency deposits equivalent to the established dollar value of the shipment(s). (See finding 3.) Bolivia had no more than 9 months from the shipment dates established by the CCC to make the necessary deposits. The computed value of these deposits is another matter and the criterion is included in the agreements. Specifically, the dollar value of deposits is to be computed by multiplying the local currency unit by the rate, existing on the deposit date, in which its central bank sold foreign exchange for local currency. Therefore, parts a. and b. of recommendation No. 2 are unresolved. Next, we have incorporated the draft finding on the $7.8 million equivalent in military sales into this finding and have incorporated USAID/Bolivia's suggested recommendation as part c. which is resolved. Parts d., and e. of recommendation No. 2 are also resolved and may be closed when USAID/Bolivia provides written evidence that it has advised the GOB about the need to meet the repayment schedules.

3. Full Forgiveness For the 1978 Public Law 480 Title III Program Was Questionable

Full forgiveness of debt owed by the Government of Bolivia for the $90.7 million 1978 PL 480 Title III program could not be obtained due to a purported $37 million equivalent loss incurred in Bolivia by exchange rate fluctuations, untimely deposits, and subsequent loss in value of disbursements. Pertinent legislation and the 1978 PL 480 Title III agreement permit full forgiveness of debt when the dollar equivalent of local currency is disbursed from the special account. The equivalent dollar value of local currency disbursed is to be computed at the highest legal exchange rate applicable on the date(s) of disbursement. However, A.I.D. and other responsible U.S. Government entities were considering granting full forgiveness based on the dollar value of the Bolivian peso when it was deposited, rather than the computed dollar value of local currency when it was disbursed from the special account. This proposal was not consistent with the agreement. Approval of the proposal would allow the recipient government to realize a $37 million equivalent windfall to the detriment of the U.S. Government and intended beneficiaries.

Recommendation No. 3

We recommend that A.I.D.'s Bureau for Food for Peace and Voluntary Assistance not make a recommendation to fully forgive the $90.7 million 1978 Public Law 480 Title III program in Bolivia until an additional $34.5 million equivalent has been disbursed from the special account for mutually agreed upon purposes.

Discussion

On May 31, 1978, a five year, $75 million PL 480 Title III Food for Development Program was signed with the Government of Bolivia (GOB). The program was increased to $92.5 million during 1983 to channel an additional $17.5 million in emergency Title III food aid to Bolivia. At the same time, the program was extended to May 30, 1984. (The program's ceiling was later reduced to $90.7 million for $1.8 million in commodities that were not shipped.)

Title III of the Agriculture Trade Development and Assistance Act of 1954 (the Act), as amended, authorizes multiyear Food for Development programs for the purchase of agricultural commodities by a recipient country, to be delivered over a period of 1 to 5 years. Commodities made available under Title III are financed by the Commodity Credit Corporation (CCC), a corporate body and a U.S. Government agency within the U.S. Department of Agriculture. Title III of the Act permits the recipient country to use local currency proceeds for purposes specified in the Act and in the sales agreement. Proper use of local currency proceeds gives the recipient country credit toward the dollar repayment obligation established by the CCC. When cumulative credits equal the dollar value of commodities purchased by a recipient country, the U.S. Government may consider the debt to be paid. This is commonly called "full forgiveness" or "currency use offset."

The CCC establishes the level of dollar repayment obligations at the time that it makes payment to U.S. bank(s) for the cost of the commodity shipment. The date(s) of CCC payment to the bank is commonly called the "CCC disbursement date."

The CCC disbursement date also triggers the established time period in which the recipient government makes local currency deposits into the special account as described in the agreement. For Bolivia's 1978 PL 480 Title III agreement, local currency deposits were to be made not later than 6 calendar months after the date(s) of disbursement established by the CCC.

In order to obtain credit toward full forgiveness, the recipient government has recently been required to deposit local currency into the special account using the foreign exchange rate in effect on the date of each CCC dollar disbursement. In effect, exchange rates existing from 5 to 9 months earlier could be used by the recipient government at the time of the deposit. This methodology reflects legislative intent, and was recently reiterated by A.I.D. in a July 14, 1988 cable (STATE 225299).

However, A.I.D.'s General Counsel's Office had earlier interpreted legislative history as being permissive rather than mandatory. With respect to methods of determining full forgiveness, the General Counsel concluded "...the agreement (not the statute) tells what exchange rate is to be used, and as of what point in time." The opinion was consistent with concepts of law in that underlying agreements must be equal to or more stringent than legislation.

Bolivia's 1978 PL 480 Title III agreement required a more stringent procedure of obtaining credit toward full forgiveness. Annex A, Item III, A., and Part I, Article III, G of the agreement required the Government of Bolivia to use the highest legal exchange rate in effect on the date of each disbursement from the special account as the means of determining credit toward full forgiveness. We believe that, due to the country's unstable economic situation, A.I.D. planners had envisioned that there would be a need to maintain the value of equivalent local currency used by Bolivia to repay its obligation.

In order to qualify for full forgiveness, or currency use offset, the GOB needed to disburse the dollar value of $90.7 million in local currency equivalents from the 1978 PL 480 Title III special account for agreed upon development purposes. However, as of March 31, 1988 the value of local currency that had been disbursed was only $56.2 million. Therefore, the GOB needed to make up and disburse another $34.5 million to qualify for full forgiveness under the agreement.

The $34.5 million equivalent deficiency was attributed to exchange rate losses which were reported to have exceeded $37 million during the 10 year life of the agreement. The Government of Bolivia's Executive Secretariat reported that hyperinflation and continuous devaluations prevailing during the 1983 through 1985 period eroded the real value of the local currency that had been deposited into the 1978 PL 480 Title III special account. A procedure that funneled local currency proceeds through various subaccounts prior to final deposit into the special account delayed disbursements. By the time disbursements from the special account were made the local currencies had been significantly devalued. Thus, the combination of hyperinflation, devaluations and deposit procedures led to a reported $37 million equivalent exchange rate loss. USAID/Bolivia initially sought to resolve the problem by seeking a pardon for the exchange rate loss.

However, there was no consensus on how to resolve the issue of the exchange rate loss and granting full forgiveness for the $90.7 million agreement. First, in August 1987 a USAID/Bolivia contractor noted that the exchange rate loss should be written-off because the debt could not be considered a resource, but rather a loss. Apparently, this conclusion ignored provisions contained in the agreement. Second, on October 22, 1987, USAID/Bolivia was advised by one of its PL 480 experts that the write-off of undisbursed funds would not be feasible and would set a bad precedent for future PL-480 agreements.

Third, the Chief Officer of the Executive Secretariat advised us that forgiveness of the estimated $37 million exchange rate loss would set a negative precedent in Bolivia since other affected government institutions would also seek forgiveness of their debts. On January 28, 1987, the Executive Secretariat had indicated that certain reflows to the program could be used to liquidate the $37 million debt while at the same time obtaining the $90.7 million in disbursements needed to qualify for full forgiveness. Also, on May 13, 1988, the Executive Secretariat provided to us a five-year repayment plan that could liquidate the $37 million equivalent shortage by 1992.

Fourth, on May 27, 1988, Bolivia's sub-secretary for the Ministry of Finance stated that the Government of Bolivia was not able to pay the debt. Fifth, A.I.D. and the Department of Agriculture were considering granting a full offset for the overall $90.7 million 1978 PL 480 debt on a basis where local currency was to be valued at the time of deposit, rather than at the time of disbursement from the special account. The Inspector General's Legal Counsel (IG/LC) did not agree with the A.I.D. and Department of Agriculture approach to forgiveness. IG/LC stated that there appeared to be "no authority" in the statute, legislative history or the agreement that would allow the CCC equivalent of local currency to be calculated at the time of the CCC (rather than recipient government) disbursement for forgiveness purposes.

While the IG/LC was researching this issue, the Interagency Working Group of the Development Coordinating Committee's (DCC) Food Aid Subcommittee approved the July 1988 cable referred to earlier (see page 15). In addition, a similar cable (STATE 339785) was issued subsequent to audit on October 19, 1988. Both cables stated, in effect, that legislative intent called for the dollar value of local currency to be calculated on the date(s) of deposit into the special account for forgiveness purposes. This legislative intent was not incorporated into Bolivia's 1978 PL 480 Title III agreement, however.

In our opinion, granting full forgiveness for the 1978 PL 480 Title III program, on a basis other than disbursements from the special account, would violate the provisions of the agreement and would translate into a potential $37 million windfall to the Government of Bolivia. It would have received $90.7 million in wheat funded by the U.S. taxpayer but would have paid for only 59 percent of the deliveries. At the same time, targeted beneficiaries in Bolivia would not be reached, as intended, due to the unavailability of proceeds.

Management Comments

A.I.D.'s Bureau for Food for Peace and Voluntary Assistance did not concur with the recommendation and requested that it be withdrawn. The Bureau responded that the recommendation hinged on a single point of legal analysis upon which A.I.D. and other U.S. Government departments had explicitly focused and had taken the view opposite the A.I.D. Inspector General. Citing July 1988 program guidance and Section 305(A) of the Agriculture Trade Development and Assistance Act, the Bureau concluded that it was the combined view of the involved U.S. Government departments that use of the date of CCC disbursement was not only permissible but appropriate. USAID/Bolivia also rejected the finding and recommendation as irrelevant based on program guidance contained in an October 1988 cable.

Office of Inspector General Comments

The 1978 PL 480 Title III agreement requires the Government of Bolivia to value its currency using the highest legal rate of exchange existing on the date of each disbursement from the special account. Since the agreement was not amended to reflect more lenient legislative intent, its provisions take precedence and remain in force. Therefore, recommendation No. 3, as modified, is unresolved.

4. Questionable Lending Practices and Ineffective Controls

The Government of Bolivia's Executive Secretariat lent at least $13 million equivalent between the PL 480 programs and certain projects (interprogram loans), and lacked accounting controls for at least $2.9 million equivalent in loans executed with intermediate credit institutions. Interprogram loans were contrary to the intent of the local currency program. Even had the loans been justified, loans receivables accounts were required to effectively record, account for, and control the loans. Receivables were also required for the loans made to intermediate credit institutions. However, USAID/Bolivia had not periodically tested the Executive Secretariat's source documentation or accounting and internal controls, and therefore it did not know that loans receivables accounts did not exist. As a result, there was no assurance that loan repayments had been made or that proceeds had been used for agreed upon purposes.

Recommendation No. 4

We recommend that USAID/Bolivia:

a. notify the Government of Bolivia that interprogram loans cannot be made from the three Public Law 480 special accounts and that existing loans represent delinquent deposits or arrearages;

b. reconstruct and reconcile the universe of local currency loans that have been made between the Public Law 480 Titles I, II, and III programs and loans made by the Government of Bolivia's Executive Secretariat to intermediate credit institutions. The Government of Bolivia's Executive Secretariat and Project Coordination and Control Unit should establish loans receivables accounts, formally reconstruct the records of loans executed and repayments received, and adjust credits made against the value of Public Law 480 financed wheat shipments to Bolivia; and

c. have the Government of Bolivia's Executive Secretariat collect $817,000 equivalent in interest and recover the $1.3 million equivalent in unused funds from intermediate credit institutions identified in the June 1, 1988 Telleria Ormachea and Troche financial review.

Discussion

The Executive Secretariat lent at least $4.8 million in local currency generated by the 1978 PL 480 Title III program to the 1985 PL 480 Title I program, to the Title II program, and to the Disaster Recovery project; it lent at least $2.4 million equivalent from the 1985 PL 480 Title I program to the 1978 Title III program and to the Disaster Recovery project; and, finally it lent at least $5.9 million in local currency generated by the 1986 PL 480 Title III program to the 1978 PL 480 Title III program and to the Emergency Agriculture Credit project. (See exhibit 4.) In at least 12 instances USAID/Bolivia condoned this practice in the form of project implementation letters. Executive Secretariat and UCCP accounting practices included the recording of most of these interprogram loans as program "disbursements" rather than accounts receivable which are required under generally accepted accounting principles.

A second problem involved the lack of internal control over loans to intermediate credit institutions (ICI). This was highlighted in the June 1, 1988 financial review made by the C.P.A. firm of Telleria Ormachea and Troche. Several loans were made which were not recorded by the Executive Secretariat as loans receivable. As examples, the accounting firm's report cited six loans totaling $1.8 million equivalent. The Executive Secretariat had also made loans which were not accounted for, to illustrate, the report cited another four loans totaling $1.1 million equivalent as an example. The accounting firm also reported that the Executive Secretariat did not normally reconcile the loan portfolios with ICI records, and did not exercise adequate supervision over the ICIs.

The 1978 and 1986 PL 480 Title III agreements permit the Government of Bolivia to disburse local currency for eligible uses set forth in the agreements. The 1978 and 1986 PL 480 Title III agreements list 14 types of projects eligible for local currency funding. None permit the execution of interprogram loans.

Establishing interprogram loans called for the creation of loans receivables accounts as a means of recording and control. Since the Executive Secretariat and the UCCP did not set up loans receivable accounts, they lost control of the interprogram loan portfolio. The audit determined that the Executive Secretariat and the UCCP could not provide the universe of interprogram loans that they had made because they had misclassified the loans as disbursements.

The execution of loans for ICIs also called for the creation of loans receivables accounts. The C.P.A. firm's report was critical of the lack of controls over loans to ICIs. It stated that not only had the Executive Secretariat and the UCCP not created loans receivables, neither had they reconciled loans balances nor effectively supervised the ICIs.

Ineffective supervision resulted in inefficient use of resources. To illustrate, the Executive Secretariat had not been able to fund some targeted development projects due to chronic liquidity shortages in the PL 480 special accounts. Therefore it often used devices such as interprogram loans to provide funding. At the same time, some of the loans made by the Executive Secretariat to credit institutions had not been used but were deposited in interest-bearing accounts. Because effective on-site financial reviews had not been made, the Executive Secretariat was not aware that the credit institutions had not made subloans to targeted beneficiaries. The C.P.A. firm's report, which covered 12 of the intermediate credit institutions, identified approximately $1.3 million equivalent in unused funds and $817,000 equivalent in interest earned (see exhibit 5). The Executive Secretariat needed to collect these monies and redirect them for development projects.

As part of its oversight, an effective monitoring device would have been for USAID/Bolivia to make periodic tests of Government of Bolivia loan and deposit practices, and then compare these practices to generally accepted accounting principles and to relevant criteria contained in the agreements. Since this was not done, problems within the loan portfolios, such as the absence of loans receivables and the inefficient use of resources, had not been identified and corrected. As a result, USAID/Bolivia, the Executive Secretariat, and the UCCP could not demonstrate that loan repayments had been made or that proceeds were ultimately used for purposes intended.

Management Comments

USAID/Bolivia did not agree with part a. of recommendation No. 4 regarding the legitimacy of making interprogram loans because it could not substantiate RIG/A/T's position in the legislation or in existing program guidance. USAID/Bolivia also did not agree that it should advise the Executive Secretariat that existing loans represent delinquent deposits. USAID/Bolivia said that a firm would be hired to formally reconstruct the records of loans executed and payments received by the Executive Secretariat. USAID/Bolivia added that the majority of unused funds were located in two banks that had been closed by the authorities and that the Executive Secretariat was attempting to recuperate funds loaned to them. Unused funds in banks other than these two were reported to have been recapitalized to make subloans within 30 days, or otherwise revert to the Executive Secretariat.

Office of Inspector General Comments

The absence of legislation or program guidance regarding interprogram loans does not excuse or condone their execution. A.I.D. has provided several support elements to enable its managers to implement programs within the realms of reasonableness and in accordance with Congressional intent. Experts in law, contracting, and engineering, for example, abound in the Agency to offer guidance to USAID/Missions. USAID/Bolivia did not call upon the legal expertise of its General Counsel to determine if interprogram loans were permissible. Also USAID/Bolivia did not obtain contracting officer, controller, accounting, or audit expertise with respect to the establishment of loans receivable. Consequently, USAID/Bolivia's response is not defensible. Part a. of recommendation No. 4 remains unresolved. Parts b. and c. of the recommendation are resolved pending the completion of management actions. Our detailed comments on the status of unused funds is included in exhibit 5.

5. The Administrative Controls Established by the Executive Secretariat and the Project Coordination and Control Unit Were Unsatisfactory

Administrative controls were required to ensure efficient and effective operations. These controls encompass such matters as organization, staffing, planning, and supervision. The Executive Secretariat and the Project Coordination and Control Unit had weak administrative controls in all of these areas because the responsible staff of the Executive Secretariat and the UCCP were either unable or unwilling to implement sound controls. USAID/Bolivia became aware of these weaknesses only recently, and therefore it has only recently begun to implement effective, corrective actions.

Recommendation No. 5

We recommend that USAID/Bolivia obtain evidence that the Executive Secretariat and the Project Coordination and Control Unit have implemented acceptable administrative controls.

Discussion

Administrative controls are those internal controls designed to ensure that an organization operates efficiently and effectively. The concept of administrative controls is set forth in generally accepted accounting standards, and encompasses such matters as organization, staffing, planning and supervision. As discussed in the following sections, the Executive Secretariat and the UCCP exhibited weaknesses in all of these areas.

Organization - The Executive Secretariat's legal status was unclear even though the institution had been in operation for nearly ten years. According to an attorney retained by USAID/Bolivia, the Executive Secretariat had no firm Bolivian legal status, and the lack of legal status could impede the Executive Secretariat's efforts to recover the equivalent of $3.7 million in PL 480 local currency lent to banks which had subsequently failed and had been placed in liquidation.

A second organizational issue concerned duplication of effort between the Executive Secretariat and the UCCP. Both organizations claimed responsibility for financial monitoring of projects, and both organizations maintained separate accounting records based on the same source documentation. To make the situation worse, there were major differences between the two sets of records: a local C.P.A. firm identified differences which totaled about 39 million Bolivianos (equivalent to roughly $19 million) as of June 30, 1987. We were told that coordination meetings between the Executive Secretariat and the UCCP had taken place, but these meetings were not documented, and the executing entities had not eliminated duplication of effort. Eliminating duplication of effort should free staff resources needed to administer the large and complex project portfolio managed by the Executive Secretariat and the UCCP.

Staffing - The Executive Secretariat, which had 15 professional employees and 3 vacant positions, lacked certain controls needed to ensure that its staff performed efficiently and effectively. First, no formal position descriptions existed. A proposal for reorganizing the Executive Secretariat described the responsibilities of its Financial and Technical Departments. However, these statements of responsibilities were not specific enough to guide hiring decisions or establish performance expectations for individual employees. Second, the Executive Secretariat had not identified training needs or provided training to its staff. Finally, no personnel evaluations had ever been done.

In like manner, the UCCP also lacked position descriptions, had not provided staff training, and had not made personnel evaluations.

Planning - According to the Chief of the Executive Secretariat's Financial Department, priority was placed on projects which would help achieve the Government of Bolivia's development objectives of increasing economic growth, increasing value added, encouraging non-traditional economic activities, generating employment, improving the balance of payments, providing housing, and reducing mortality. However, due to the lack of an overall strategy for the PL 480 local currency program, the Executive Secretariat had approved too many small projects which had limited impact and were all but impossible to monitor. The Executive Secretariat was implementing about 272 local currency projects, and some projects included numerous subprojects. For example, one of the PVO projects included 531 individual subprojects.

Supervision - The Executive Secretariat implemented a strengthened project supervision plan in April 1988. The new supervision plan scheduled visits generally twice a year and even more frequently for those projects requiring field visits. Staff were required to prepare plans listing specific objectives for each supervision visit and reports on the results of the visit.

Some monitoring weaknesses remained, however. First, the Executive Secretariat needed better information on how many projects it had in its portfolio. We were provided a computer listing which included both active and completed projects and even projects which had at one time been considered but were never actually financed. Executive Secretariat staff had to manually eliminate the completed projects and the projects which were never funded. An organization with such a large portfolio cannot develop a rational supervision plan without continuous information on how many projects it has to manage.

Second, while implementing agencies were to submit technical progress reports, the Chief of the Financial Department estimated that as many as 80 percent of the implementing agencies did not comply with this requirement. (The audit reviewed five projects implemented by CARITAS Boliviana and the Development and Assistance Resource Agency/Adventist Social Assistance Philanthropic Work [ADRA/OFASA], all of which required progress reports. While ADRA/OFASA had submitted required reports, CARITAS had not complied with reporting requirements for two of the three projects it was implementing.) As a result, the Executive Secretariat mainly relied on relatively infrequent field visits to measure the progress and results of its projects.

A third supervision weakness was that both the Executive Secretariat and the UCCP accomplished financial supervision almost exclusively by reviewing liquidations submitted by implementing agencies instead of on-site reviews of books and records. Since few on-site reviews were made, the executing entities had no way of knowing whether implementing agencies maintained separate accounting books and records as required by the letters of understanding signed by the agencies and the Executive Secretariat.

We reviewed accounting controls of ADRA/OFASA and visited four CARITAS Boliviana projects for which separate books and records were required. While ADRA/OFASA maintained separate books and records, CARITAS had not complied with this requirement for any of its three projects. As a result, neither CARITAS nor the Executive Secretariat and the UCCP had accurate records of project expenditures. Another problem that would have been detected by on-site reviews was the lack of any type of control over approximately $200,000 in supplies and equipment purchased by CARITAS and ADRA/OFASA.

The administrative control problems discussed in the above four subheadings existed because the responsible host government staff were either unable or unwilling to implement sound control systems. Also, USAID/Bolivia was largely unaware of these problems until they were disclosed by a July 1987 evaluation, a June 1988 financial review, and this audit. Due to these administrative control weaknesses, a serious risk existed that program resources were not being used efficiently and effectively.

In conclusion, both the Executive Secretariat and the UCCP exhibited weaknesses in organization, staffing, planning, and supervision. These weaknesses needed to be corrected to ensure the best use of the resources they managed. (USAID/Bolivia had already made reorganization plans, therefore, no recommendation to that effect has been made in this report.)

Management Comments

USAID/Bolivia said that a management team from a recognized accounting firm, was working in Bolivia to restructure the Executive Secretariat, including a fusion of the UCCP into the Executive Secretariat.

Office of Inspector General Comments

Recommendation No. 5 is resolved and may be closed pending evidence that acceptable administrative controls have been installed.

6. Financial Reviews of Local Currency Projects Could Be Improved

Due to inadequate field evaluations, the Executive Secretariat and the Project Coordination and Control Unit had not detected that certain assets purchased with PL 480 program resources were not properly accounted for or that subsidized loans had been made by the intermediate credit institutions to affluent clients. The PL 480 agreements defined the management and financial responsibilities of the Executive Secretariat and the UCCP. However, as a basis for their reviews, they relied on documentation sent to their offices from implementing units in the field and had not made sufficient on-site financial reviews of the five local currency projects that the audit tested.

Recommendation No. 6

We recommend that USAID/Bolivia:

a. request the Government of Bolivia's Executive Secretariat and Project Coordination and Control Unit to establish and disseminate to Public Law 480 local currency program recipients a system of property accountability;

b. request the Government of Bolivia's Executive Secretariat and Project Coordination and Control Unit to develop and disseminate to participating intermediate credit institutions, criteria establishing occupation categories, income ceilings, and net worth limitations for recipients of Public Law 480-financed loans; and

c. have the Government of Bolivia's Executive Secretariat account for equipment and recover 12 of 13 vehicles purchased for the Plant Sanitation Project. This includes 1 vehicle that was being used for personal purposes by an employee.

Discussion

We reviewed five PL 480 development activities to evaluate the relative effectiveness of the projects and their accomplishments, and to assess the adequacy of host country financial reviews. Our review of a rural potable water project, a crop sanitation project and three agricultural credit projects disclosed that the host country's monitoring units had performed few on-site financial reviews of these development activities or of the implementing agencies that were responsible for managing them. In addition, a review of subloans under one activity revealed that project loan recipients were affluent professionals (lawyers, doctors, and the like). Results of tests and field observations at the five PL 480 development activities are discussed below.

Plant Sanitation Project - Implementation of a five year plant sanitation project was initiated through the Ministry of Agriculture and Campesino Affairs (MACA) in July 1979. The project received PL 480 funding of approximately $913,000 equivalent and was designed to instruct small farmers in pesticide use, and to install border quarantine posts to detect diseased plants imported into the country. The majority of the funding was used to build a pesticide control laboratory, to buy laboratory equipment valued at over $270,000 and to acquire 13 vehicles with an average unit cost of $10,500. We found that the pesticide control laboratory had never been fully operational and was in fact closed from 1982 to 1986. During our visit no testing activities were in process, and we were told that the only activities to date had been seminars showing project personnel how to use the equipment. (Laboratory manuals demonstrating how to operate the equipment had not been received.) In addition, border quarantine posts were not functioning properly because they were not equipped as planned.

Neither of two host country monitoring units (i.e. Executive Secretariat and UCCP) had conducted on-site financial reviews of this project nor taken any inventories of project equipment. As a result, it could not be determined if all the property and equipment charged to the project had been ordered or received. In short, since no pesticide analysis had taken place and because border testing posts were not operating properly, approximately $900,000 in local currency funding had not been adequately accounted for or effectively utilized. Also, of the 13 vehicles ordered, only 1 vehicle could still be identified with project operations. Two other vehicles were being used, one by the project's legal department and the other for personal purposes by a MACA employee.

San Julian Rural Potable Water Project - This potable water project, which received $282,421 in equivalent local currency, had achieved reasonably good results and had been specifically targeted to assist Bolivia's poorest sector. Project targets were to construct wells, latrines, and cisterns for 80 planned communities. Drilling of water wells and installation of front door water services had not been achieved at every targeted community, however. Those community members who did not request the new water systems stated that although they wanted the water services the $90 equivalent downpayment was too expensive. The start-up of a chicken raising activity at one village had helped that community to raise the necessary capital to defray costs for the services. Any future follow-on project should consider a greater emphasis on such income producing activities.

The Government of Bolivia's Integrated Development Foundation (FIDES) was implementing the project. FIDES administrative controls and accounting procedures, with the exception of certain procurement actions, were adequate. Since inception of the project in January 1986, the Executive Secretariat and the UCCP had not made on-site financial reviews of either the FIDES office in Santa Cruz or of the potable water project in San Julian. Funding for the project was to expire in July 1988, and since many of the water systems still needed to be installed, it is advisable that this project receive future funding from PL 480 local currency resources. The San Julian Rural Water Project appeared to be a most appropriate project to benefit Bolivia's poor majority who are the intended beneficiaries of the PL 480 local currency program.

Rice Financing Project - Our field visit disclosed that neither the Executive Secretariat nor the UCCP had conducted on-site financial reviews of operations. Due to the seasonal nature of the rice crop, it was critical that financing be obtained for small rice farmers prior to rice planting in Santa Cruz, Bolivia. Funding was received late for both the 1987 and 1988 rice seasons resulting in performance shortfalls. Effective on-site reviews by the Executive Secretariat or the UCCP may have identified the essential need for timely funding.

In order to eliminate excessive speculation by rice middlemen and to ensure fair prices to both rice sellers and consumers, three Santa Cruz agricultural cooperatives formed a common rice association in April 1987 called ACAF. (This acronym identifies: Camara Agropecuaria del Oriente [CAO]; Asociacion de Productores de Arroz [ASPAR]; and, la Federacion Nacional de Cooperativas Arroceras [FENCA].) ACAF was to provide intermediary financing, storage, and marketing services to Santa Cruz's small rice farmers.

Desired results were not achieved in 1987 because ACAF's predecessor organization, the Eastern Agricultural Association, waited until March 1987 to request local currency financing and finally received it in early May 1987. The rice season in the Santa Cruz region is from February to May. In addition, indecision by association rice producers, unexpected delays in renting government silos, and certain lending restrictions contributed to ACAF's inability to market only 13 percent of the project's estimated 30,000 metric tons in processed rice. Of the $4 million equivalent in approved 1987 financing, the Executive Secretariat allocated $1 million equivalent to the participating credit institution, and ACAF in turn used $329,900 for its 1987 rice operations. Due to delays in implementing the 1987 project, rice farmers received insufficient advances and were forced to sell their rice at a lower price for cash. A 1987 bank review summarized project performance by saying that although project goals were "laudable", desired results had "regrettably" not been achieved.

ACAF fared no better during the 1988 season. This time, however, ACAF management requested the needed local currency funding far in advance, on September 10, 1987, in order to allow the Executive Secretariat sufficient time to approve the project and so that project inflows could be received at the start of the 1988 rice season in February. Between the February to April 1988 period, ACAF had planned to buy 90 percent of its rice requirement, and therefore needed approximately $1.1 million in local currency funding to make the purchases. Unfortunately, ACAF received the first PL 480-funded disbursement for the project in mid May, virtually after the rice season was all but over. A review of project correspondence indicated that the Executive Secretariat had made initial credit available to the participating credit institution in late April, and the institution lent the proceeds to ACAF on May 12, 1988. Although many of the projects structural problems had been worked out during the 1987 season, only 2,800 of the targeted 15,000 metric tons of rice was financed and marketed due to late receipt of funding.

ICI Trust Fund Loans - Trust fund loans (subloans) were made as part of the $48.5 million in small farmer credit committed under the three PL 480 programs. These subloans were intended to expand small farmer and small-scale business credit and also to assist small artisans and other individuals normally denied access to Bolivia's traditional credit sources. Credit was provided to the beneficiaries through Bolivia's private banking and credit system. The Executive Secretariat would lend funds to the participating credit institution at 9 percent, for a 3 to 5 year period. The private bank or credit institution would then make small subloans to recipients at 13 percent for a 2 to 5 year period. We reviewed the trust fund credit programs of two prominent Santa Cruz banking institutions, the Bank of Santa Cruz and the Union Bank.

The Executive Secretariat had made on-site financial reviews of the bank's trust fund operations, but the reviews were inadequate and of poor quality. To illustrate, the reviews did not identify differences recorded by the banks to those recorded by the Executive Secretariat. Also, the financial reviews did not identify four of nine Bank of Santa Cruz beneficiaries who were delinquent in their subloan repayments.

Our review of subloans at the Bank of Santa Cruz indicated that installment payments on four of the nine subloans were delinquent. The bank's assistant manager, who was responsible for the portfolio, did not know that repayments were past due, and the bank's trust fund credit officer had taken no action to collect the past due payments. Since the Executive Secretariat hoped to generate $20 million equivalent in future inflows from the small farmer credit program, it needed to more closely monitor the loans already made.

Our review also disclosed that several affluent Santa Cruz professionals received subsidized PL 480 subloans from the two banks. A doctor, lawyer, economist, pilot and a banker obtained subloans of approximately $148,000 equivalent to pursue agriculture as a secondary occupation. The banker worked for the Union Bank and received his subloan from the other credit institution that we reviewed, the Bank of Santa Cruz. His subloan was found to be $3,000 equivalent in arrears. In addition, two wealthy ranchers whose family owned stock in the Bank of Santa Cruz received approximately $70,000 from that bank in low cost, 13 percent trust fund financing while normal commercial credit was approximately 36 percent. The emphasis of the PL 480 program was to assist Bolivia's poorer majority, but bank officials made a regular practice of using trust fund proceeds to lend to its preferred clients whose collateral [guaranty] often far exceeded the 2 to 1 required asset/liability ratio. Visits to the residences of three of these beneficiaries indicated that they were related to each other, and they occupied expensive, spacious homes.

Banking officials stated that they preferred not to lend trust fund proceeds to poor beneficiaries because of the increased chance for default. While we can understand the banks' position and concern, a "middle ground" could be achieved, and subloans could be made to lower middle class or middle class beneficiaries. Since most of the trust fund loans were relatively small, i.e. $15,000 or less, a 2 to 1 net worth collateral requirement could still be satisfied by targeting lower-middle to middle class beneficiaries. This low cost subsidized credit should not be made available to wealthy professionals who have ready access to Bolivia's traditional credit sources.

In summary, based on the observations from the visits to the PL 480 development projects discussed in the above subheadings, the implementing agencies for Bolivia's local currency program needed to make more frequent field evaluations in order to obtain minimum assurance that resources were being used for mutually agreed upon purposes.

Management Comments

USAID/Bolivia believed that the instance described in the report regarding the lack of accountability for equipment was an anomaly and that the Executive Secretariat already required a property inventory on all equipment purchased by executing entities. USAID/Bolivia also said that the incidence of PL 480 funds lent to affluent persons was the exception rather than the rule. Finally, USAID/Bolivia promised to make efforts to recover or regulate use for the 12 unaccounted for or misused vehicles, but strongly suggested that an audit recommendation to regularize vehicle use would have been more realistic and actionable.

Office of Inspector General Comments

First, USAID/Bolivia is invited to furnish to RIG/A/T the Executive Secretariat's reported system of property accountability in order to resolve part a. of recommendation No. 6. Second, it is unusual for USAID/Bolivia to conclude that PL 480 funds have not been lent to affluent persons, other than those cited in this report, because USAID/Bolivia and the Executive Secretariat have not visited and reviewed these activities sufficiently. Finally, USAID/Bolivia is in a better position to establish and enforce a regularized vehicle use policy. Such a policy should have been part of the Executive Secretariat's system of property accountability.

7. Publicity of Public Law 480 Titles I and III Local Currency Projects Needed to be Considered

A.I.D. Handbooks encourage advertising and publicity with regards to U.S. commodity exports that are financed by A.I.D.'s development projects, commodity import programs, and PL 480 Title II programs. However, in the Bolivia PL 480 local currency program, considered to be USAID/Bolivia's largest development tool, the majority of beneficiaries we visited were not aware of any U.S. Government relationship to the programs. Since A.I.D. Handbooks do not comment on publicity for PL 480 Titles I and III local currency programs, they were not promoted or advertised. If A.I.D.'s participation in these programs and development projects is not sufficiently promoted and advertised, then the millions of dollars that have been invested into this type of U.S. Foreign Assistance will not achieve the degree of goodwill envisioned by PL 480 legislation.

Recommendation No. 7

We recommend that A.I.D.'s Bureau for Food for Peace and Voluntary Assistance establish and enter into the A.I.D. Handbooks policy regarding advertising and publicity for Public Law 480 Titles I and III local currency programs.

Discussion

Policy guidance contained in Handbook 1, Supplement B encourages that equipment and commodities financed under certain A.I.D. projects and programs be suitably marked to identify them as U.S. Foreign Assistance. Such marking was to include the A.I.D. red, white and blue handclasp emblem. A.I.D. Handbooks 9 and 15 stress the importance of publicizing commodity imports under the PL 480 Title II and commodity import programs, respectively.

The PL 480 Titles I and III local curency program was considered to be USAID/Bolivia's largest development tool. For example, a July 1987 evaluation characterized the program as USAID/Bolivia's single most important policy leverage instrument, being used successfully to achieve a number of policy objectives that had ranged from macroeconomic policies to reorganization of Bolivia's Ministry of Agriculture. USAID/Bolivia's fiscal year 1988/1989 action plan stated that the critical nature of the PL 480 Title III program to its development strategy and to the achievement of Bolivia's economic equilibrium could not be understated. The size of the program had made it one of the most effective elements of USAID/Bolivia's portfolio in both policy and monetary terms. The action plan further stated that the program was recognized by outside evaluators in 1980, 1982 and 1984 for its exceptional effectiveness, and hailed as the best program of its kind in the world.

Our review of three PL 480 local currency projects and two intermediate credit institutions showed that recipients were generally unaware that A.I.D. had in someway contributed to the financing and sponsorship of their particular development project. Beneficiaries were generally not aware of A.I.D.'s role in the PL 480 program because project signs and markers did not generally identify A.I.D.'s participation with the activity nor was there a requirement that they be so identified.

Plant Sanitation Project - This was the only project of the five reviewed where PL 480 beneficiaries had a general knowledge of A.I.D.'s participation.

San Julian Rural Potable Water Project - None of the beneficiaries that we talked to did in any way relate the construction of well, latrine, and cistern systems to foreign assistance provided by the U.S. Government. Although advertisement of the project at the settlement identified it as a joint FIDES-PL 480-A.I.D. venture, none of the beneficiaries interviewed were aware that "PL 480-A.I.D." was a U.S. foreign assistance program. When asked about this, FIDES officials stated that they had received no instruction to actively promote A.I.D.'s participation in the project and added that they would be happy to give such recognition if so instructed.

Rice Financing Project - Management and rice growers thought that the project had been financed by the World Bank, or the Inter-American Development Bank (IDB). None of them knew that the project had been sponsored by a U.S. foreign assistance program. We reviewed past publicity of the project and found no mention of any A.I.D. participation or sponsorship of the project. A management official told us that the executing entity (ACAF) had received no instructions to advertise A.I.D.'s participation in the project. He added that this was unusual to him because other donors such as the IDB placed "a large sign" in front of its projects to inform the public that IDB had helped to finance it.

ICI Recipients - Four of the seven beneficiaries interviewed did not know that A.I.D. had participated in the sponsoring and financing of trust fund loans made by the Union and Santa Cruz banks. Although the Union Bank had publicized PL 480 credit in a general advertisement, it did not identify A.I.D.'s participation in the program. Again, Union Bank officials stated that they had received no instructions to advertise A.I.D.'s role in the program but would be happy to do so, if instructed. We could find no evidence that the Bank of Santa Cruz had ever advertised or publicized the trust fund program.

As evident from the visits to the five activities discussed above, there is a need for promoting A.I.D. participation in development projects. However, A.I.D. handbooks did not contain policy with respect to publicizing and advertising projects funded from local currency generated by the PL 480 Title I and III programs such as those in Bolivia. For this reason no clause was included in the program subagreements to publicize the A.I.D. assistance.

In our opinion, publicity of A.I.D.'s participation in Bolivia's local currency program can result in immeasurable political and intangible benefits.

Management Comments

A.I.D.'s Bureau for Food for Peace and Voluntary Assistance responded that the requirement for publicity was contained in Section 103(l) of the Agriculture Trade Development and Assistance Act, and that Part I, Article III, Section 1 of each PL 480 agreement contained the criterion for implementing this legislation. The Bureau also cited an A.I.D. circular on this matter that had been disseminated in July 1974, and stated that A.I.D. Handbook 9 would be reissued shortly and would contain material reflecting the publicity requirement.

Office of Inspector General Comments

The Bureau has cited PL 480 legislation, agreements and a dated circular as sources that have established publicity requirements. The fact is that the A.I.D. Handbooks have yet to reflect the Agency's official posture regarding publicity and advertising for PL 480 Titles I and III local currency programs. Such policy is needed so that field staff may more forcefully publicize the extensive U.S. Government role in improving the lives of targeted beneficiaries in developing countries and ensure that publicity clauses are included in subagreements. We have added "...and enter into the A.I.D. Handbooks..." in recommendation No. 7. The recommendation is, therefore, resolved and may be closed when the Bureau incorporates the publicity requirement in the appropriate A.I.D. Handbook.

B. Compliance and Internal Control

We limited the review of compliance and internal control to the seven findings contained in this report. Other than these conditions, nothing came to our attention to indicate that compliance in other areas or the integrity of internal control systems and practices had been compromised.

1. Compliance

There were seven compliance exceptions. First, the PL 480 and ESF agreements required the Government of Bolivia to maintain complete and accurate information on the status of the programs. Finding No. 1 demonstrated that the Government of Bolivia did not comply with this requirement. Second, A.I.D. policy called for effective monitoring of the local currency program. Finding No. 1 demonstrated that USAID/Bolivia did not effectively monitor the program. Third, finding No. 2 discussed the Government of Bolivia's non-compliance with agreed upon deposit payments resulting in a $15.3 million equivalent shortage, including a $7.8 million equivalent debt owed by the recipient government's Ministry of Defense and National Police. Fourth, the relevant agreements required the Government of Bolivia to deposit local currency into the special accounts at selling rates established by the Central Bank. Finding No. 2 also demonstrated that the Government of Bolivia did not comply with that requirement. Fifth, the agreements defined management and financial responsibilities of the executing entities, but finding No. 6 demonstrated that they did not comply in making on-site financial reviews. Sixth, intermediate credit institutions were to make loans to "eligible beneficiaries." Finding 6 showed that intermediate credit institutions did not always make loans to eligible beneficiaries, as intended. Finally, the executing entities had not properly withheld income taxes in accordance with Bolivian law (see section c., Other Pertinent Matters).

2. Internal Control

There were five internal control exceptions. Finding No. 1 demonstrated that USAID/Bolivia monitoring and the accounting, reporting and internal controls of the executing entities were ineffective or deficient. Finding No. 2 highlighted weaknesses in controls over exchange rate practices, and finding No. 4 discussed poor controls over interprogram loans and loans to intermediate credit institutions. Finding No. 5 showed that the administrative controls of the Executive Secretariat and the UCCP were not satisfactory. Finding No. 6 discussed, in part, the lack of control by the executing entities over activities in the field.

C. Other Pertinent Matters

The audit disclosed that the Project Coordination and Control Unit (UCCP) and the Executive Secretariat had not properly withheld income taxes during part of 1987. The Government of Bolivia's Law No. 843 established a 10 percent tax on salaries, bonuses, and other types of income. One of the implementing regulations, Supreme Decree No. 21531, required both public and private sector employers to withhold the tax beginning April 1, 1987.

From April through December 1987 the UCCP prepared two payrolls each month. It withheld taxes from one payroll which showed 21 percent of the salary paid to each employee but did not withhold taxes from the second payroll which showed the remaining 79 percent as "economic bonuses." The Director of the UCCP said that he was unfamiliar with Bolivian tax laws and regulations. The UCCP began to withhold taxes from its employees' entire salaries with the payroll for January 1988. Because taxes had not been withheld during part of 1987, the UCCP had an unrecorded liability equivalent to about $3,500. Also, we believe that this situation could be embarrasing to the U.S. Government if not corrected quickly, due to the close relationship between the UCCP and A.I.D. While we are not making a formal recommendation, USAID/Bolivia should obtain evidence that the UCCP has paid to the Bolivian tax authorities the income taxes which should have been withheld from April through December 1987.

In April and May 1987, the Executive Secretariat also prepared two payrolls for its employees, withholding income tax from only one. Since the responsible accountant had left the Executive Secretariat, they were not able to explain why this procedure was followed. At any rate, the Executive Secretariat began withholding income tax from 100 percent of its employee's salaries in June 1987. USAID/Bolivia should obtain evidence that the Executive Secretariat has paid to the Bolivian tax authority the income taxes which should have been withheld in April and May 1987. USAID/Bolivia responded that the executing entities have now repaid these back taxes.

AUDIT
OF ACCOUNTABILITY FOR
LOCAL CURRENCY IN BOLIVIA

PART III - EXHIBITS AND APPENDICES

1978 PL 480 Title III Program
Schedule of Deposits
As of May 4, 1988

Date Deposit Voucher Prepared	GOB Supreme Decree Commodity Shipment Number	Treasury Account Number	Voucher Number	Amount Deposited in PL-480 Special Account In Local Currency (Pesos bolivianos $b)	Central Bank's Highest Legal Exchange Rate	Exchange Rate Used By GOB to Record Deposits to Special Acct.	GOB Recorded Deposits in U.S. Dollars	Actual GOB Deposits Using Highest Legal Rate	Differences in U.S. Dollars
03/09/79	15578	0-2-265	000999	17,579,469.46	20.02	20.40 1/	861,738.70	878,095.38	16,356.68
04/26/79	15578	0-2-265	000999	42,700,530.54	20.02	20.40	2,093,163.26	2,132,893.63	39,730.37
04/30/79	15578	0-2-265	000999	46,415,000.00	20.02	20.40	2,275,245.10	2,318,431.57	43,186.47
07/19/79	15578	0-2-265	000999	61,535,000.00	20.02	20.40	3,016,421.57	3,073,676.32	57,254.75
08/22/79	15578	0-2-265	000999	12,255,653.08	20.02	20.40	600,767.31	612,170.48	11,403.17
08/22/79	15578	0-2-265	000999	17,432,346.92	20.02	20.40	854,526.81	870,746.60	16,219.79
09/06/79	15578	0-2-265	000999	204,000.00	20.02	20.40	10,000.00	10,189.81	189.81
10/05/79	15578	0-2-265	002-11	9,032,386.94	20.02	20.40	442,764.07	451,168.18	8,404.11
01/16/80	15578	0-2-265	0015-1	1,554,512.64	25.00	25.00	62,180.51	62,180.51	0
02/14/80	16651	0-2-288	0024-2	114,443,715.54	25.00	25.00	4,577,748.62	4,577,748.62	0
02/21/80	15578	0-2-265	0024-2	234,049.22	25.00	25.00	9,361.97	9,361.97	0
03/25/80	16651	0-2-288	0002-4	61,035,569.65	25.00	25.00	2,441,422.79	2,441,422.79	0
10/20/80	17179	0-2-306	024-10	34,265,687.00	25.00	25.00	1,370,627.48	1,370,627.48	0
11/25/80	17351	0-2-308	029-11	53,617,665.29	25.00	25.00	2,144,706.61	2,144,706.61	0
02/18/81	16651	0-2-288	0022-2	80,869,564.50	25.00	25.00	3,234,782.58	3,234,782.58	0
02/20/81	17652	0-2-318	0022-2	21,305,437.72	25.00	25.00	852,217.51	852,217.51	0
07/24/81	16651	0-2-288	0023-7	33,736,165.48	25.00	25.00	1,349,446.62	1,349,446.62	0
07/24/81	17179	0-2-306	0023-7	87,660,324.32	25.00	25.00	3,506,412.97	3,506,412.97	0
07/24/81	17351	0-2-308	0023-7	148,821,034.68	25.00	25.00	5,952,841.39	5,952,841.39	0
07/24/81	17652	0-2-318	0023-7	68,390,569.18	25.00	25.00	2,735,622.77	2,735,622.77	0

1/ A Bolivian Central Bank Letter dated May 29, 1985 to the DCCP Office erroneously communicated an exchange rate of $b 20.40 to the dollar rather than the Central Bank's official rate of $b 20.02 to the dollar.

EXHIBIT 1

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Date Deposit Voucher Prepared	GOB Supreme Decree Commodity Shipment Number	Treasury Account Number	Voucher Number	Amount Deposited in PL-480 Special Account In Local Currency (Pesos Bolivianos $b)	Central Bank's Highest Legal Exchange Rate	Exchange Rate Used By GOB to Record Deposits to Special Acct.	GOB Recorded Deposits in U.S. Dollars	Actual GOB Deposits Using Highest Legal Rate	Differences in U.S. Dollars
02/07/83	19221	0-2-216	0008-2	872,351,000.00	200.00	196.00	4,450,770.41	4,361,755.00	(89,015.41) 2/3/
06/06/83	19221	0-2-216	0007-6	27,747,000.00	200.00	196.00	141,566.33	138,735.00	(2,831.33)
08/03/83	19221	0-2-216	0004-8	335,535,792.11	200.00	196.00	1,711,917.31	1,677,678.96	(34,238.35)
08/26/83	19652	0-2-330	0005-9	506,154,000.00	200.00	196.00	2,582,418.37	2,530,770.00	(51,648.37)
08/26/83	19221	0-2-216	0012-8	335,535,792.11	200.00	196.00	1,711,917.31	1,677,678.96	(34,238.35)
09/20/83	19652	0-2-330	0013-9	309,348,000.00	200.00	196.00	1,578,306.12	1,546,740.00	(31,566.12)
10/13/83	19221	0-2-216	009-10	335,535,792.11	200.00	196.00	1,711,917.31	1,677,678.96	(34,238.35)
11/10/83	19652	0-2-330	010-11	231,459,000.00	200.00	196.00	1,180,913.27	1,157,295.00	(23,618.27)
11/14/83	19652	0-2-330	010-11	391,122,000.00	200.00	196.00	1,995,520.41	1,955,610.00	(39,910.41)
12/23/83	19831	0-2-338	025-12	1,891,517,000.00	510.20	500.00	3,783,034.00	3,707,402.97	(75,631.03)
01/05/84	19831	0-2-338	0002-2	505,314,000.00	510.20	500.00	1,010,628.00	990,423.36	(20,204.64)
01/17/84	19652	0-2-330	0002-2	42,776,800.00	510.20	500.00	85,553.60	83,843.19	(1,710.41)
01/24/84	19831	0-2-338	0002-2	691,598,000.00	510.20	500.00	1,383,196.00	1,355,542.92	(27,653.08)
02/06/84	19831	0-2-338	0006-3	123,214,697.38	510.20	500.00	246,429.39	241,502.73	(4,926.66)
04/26/84	19831	0-2-338	0007-6	104,351,724.06	2,040.00	2,000.00	52,175.86	51,152.80	(1,023.06)
06/07/84	19652	0-2-330	0008-6	53,401,028.68	2,040.00	2,000.00	26,700.51	26,176.97	(523.54)
06/13/84	19831	0-2-338	0011-6	17,832,300.00	2,040.00	2,000.00	8,916.15	8,741.32	(174.83)
06/18/84	19831	0-2-338	0019-6	16,911,500.00	2,040.00	2,000.00	8,455.75	8,289.95	(165.80)
06/22/84	19831	0-2-338	0023-6	18,919,101.00	2,040.00	2,000.00	9,459.55	9,274.06	(185.49)
08/28/84	19831	0-2-338	0012-8	121,115,200.00	5,250.00	5,000.00	24,223.04	23,069.56	(1,153.48)
08/28/84	19652	0-2-330	0012-8	2,260,301,001.00	5,250.00	5,000.00	452,060.20	430,533.52	(21,526.68)
09/04/84	19831	0-2-338	0004-9	12,249,900.00	5,250.00	5,000.00	2,449.98	2,333.31	(116.67)
09/04/84	19652	0-2-330	0004-9	962,032,672.00	5,250.00	5,000.00	192,406.53	183,244.31	(9,162.22)
09/05/84	19831	0-2-338	0014-9	123,670,730.00	5,250.00	5,000.00	24,734.15	23,556.32	(1,177.83)
09/05/84	19652	0-2-330	0014-9	42,390,035.00	5,250.00	5,000.00	8,478.01	8,074.29	(403.72)
09/10/84	19652	0-2-330	0016-9	10,000,000,000.00	5,250.00	5,000.00	2,000,000.00	1,904,761.90	(95,238.10)
09/13/84	19652	0-2-330	0015-9	600,595,421.00	5,250.00	5,000.00	120,119.08	114,399.12	(5,719.96)
09/14/84	20295	0-2-359	0015-9	8,194,081,815.00	5,250.00	5,000.00	1,638,816.36	1,560,777.48	(78,038.88)
09/19/84	20295	0-2-359	0020-9	60,007,404.00	5,250.00	5,000.00	12,001.48	11,429.98	(571.50)

2/ Parentheses indicate overstated GOB recorded equivalent dollar deposits to the special account based solely on the date(s) that the deposit vouchers were prepared. These equivalent amounts are due the special account and should be deposited in the future. Additional amounts will be due when USAID/Bolivia determines the extent of exchange rate errors based on the dates that deposits were actually made.

3/ Deposits made by the GOB during the period February 7, 1983 to October 25, 1984 were overstated because Executive Secretariat and DCCP accounting personnel used the foreign exchange purchase rate rather than the higher selling rate to record GOB deposits made to the special account. Again, our calculations are based on dates when deposit vouchers were prepared.

Date Deposit Voucher Prepared	GOB Supreme Decree Commodity Shipment Number	Treasury Account Number	Voucher Number	Amount Deposited in PL-480 Special Account In Local Currency (Pesos Bolivianos $b)	Central Bank's Highest Legal Exchange Rate	Exchange Rate Used by GOB to Record Deposits to Special Acct.	GOB Recorded Deposits in U.S. Dollars	Actual GOB Deposits Using Highest Legal Rate	Differences in U.S. Dollars
09/25/84	20295	0-2-359	006-10	247,203,225.00	5,250.00	5,000.00	49,440.65	47,086.32	(2,354.33)
09/25/84	20295	0-2-359	006-10	1,023,347,537.00	5,250.00	5,000.00	204,669.51	194,923.34	(9,746.17)
09/26/84	20295	0-2-359	004-10	672,187,584.00	5,250.00	5,000.00	134,437.52	128,035.73	(6,401.79)
09/27/84	20295	0-2-359	004-10	50,434,880.00	5,250.00	5,000.00	10,086.98	9,606.64	(480.34)
10/09/84	19831	0-2-338	011-10	11,248,000.00	5,250.00	5,000.00	2,249.60	2,142.47	(107.13)
10/09/84	20295	0-2-359	011-10	69,818,056.00	5,250.00	5,000.00	13,963.61	13,298.67	(664.94)
10/15/84	20295	0-2-359	021-10	210,000,000.00	5,250.00	5,000.00	42,000.00	40,000.00	(2,000.00)
10/18/84	20295	0-2-359	026-10	8,842,608.00	5,250.00	5,000.00	1,768.52	1,684.00	(84.52)
10/23/84	20295	0-2-359	033-10	1,217,742,544.00	5,250.00	5,000.00	243,548.51	231,950.96	(11,597.55)
10/25/84	19652	0-2-330	033-10	10,000,000,000.00	5,250.00	5,000.00	2,000,000.00	1,904,761.90	(95,238.10)
11/07/84	20295	0-2-359	007-11	779,481,136.00	5,250.00	9,000.00	86,609.02	148,472.60	61,863.58
01/16/85	19652	0-2-330	0009-1	10,000,000,000.00	9,000.00	9,000.00	1,111,111.11	1,111,111.11	0
02/08/85	19652	0-2-330	0006-2	10,000,000,000.00	9,000.00	9,000.00	1,111,111.11	1,111,111.11	0
03/25/85	19652	0-2-330	0007-3	10,000,000,000.00	50,000.00	50,000.00	200,000.00	200,000.00	0
04/03/85	19652	0-2-330	0003-4	10,000,000,000.00	50,000.00	50,000.00	200,000.00	200,000.00	0
05/14/85	19652	0-2-330	0009-5	45,000,000,000.00	50,000.00	50,000.00	900,000.00	900,000.00	0
05/16/85	19652	0-2-330	0009-5	35,000,000,000.00	75,000.00	50,000.00	700,000.00	466,666.67	(233,333.33)
08/12/85	20295	0-2-359	0002-9	67,000,000,000.00	75,000.00	75,000.00	893,333.33	893,333.33	0
10/21/85	20295	0-2-359	0002-2	178,385,046.00	1,124,000.00	1,120,000.00	159.27	158.70	(0.57)
11/15/85	19652	0-2-330	004-11	900,000,000,000.00	1,160,000.00	1,160,000.00	775,862.07	775,862.07	0
11/15/85	19831	0-2-338	004-11	520,000,000,000.00	1,160,000.00	1,160,000.00	448,275.86	448,275.86	0
11/15/85	19652	0-2-330	004-11	900,000,000,000.00	1,160,000.00	1,160,000.00	775,862.07	775,862.07	0
12/30/85 4/	19831	0-2-338	0001-1	900,000,000,000.00	1,692,000.00	1,692,000.00	531,914.89	531,914.89	0
12/30/85 4/	19831	0-2-338	0001-1	900,000,000,000.00	1,692,000.00	1,692,000.00	531,914.89	531,914.89	0
12/30/85 4/	19831	0-2-338	0001-1	900,000,000,000.00	1,692,000.00	1,692,000.00	531,914.89	531,914.89	0
12/30/85 4/	20295	0-2-359	0001-1	684,000,000,000.00	1,692,000.00	1,692,000.00	404,255.32	404,255.32	0
04/18/86	19831	0-2-338	0014-4	380,800,000,000.00	1,904,000.00	1,904,000.00	200,000.00	200,000.00	0
05/23/86	20295	0-2-359	0013-5	990,000,000,000.00	1,904,000.00	1,904,000.00	519,957.98	519,957.98	0
05/23/86	20295	0-2-359	0013-5	914,000,000,000.00	1,904,000.00	1,904,000.00	480,042.02	480,042.02	0
05/30/86 4/	20295	0-2-359	0014-5	910,000,000,000.00	1,905,000.00	1,905,000.00	477,690.29	477,690.29	0
05/30/86 4/	20295	0-2-359	0014-5	995,000,000,000.00	1,905,000.00	1,905,000.00	522,309.71	522,309.71	0
06/13/86	20295	0-2-359	0010-6	952,500,000,000.00	1,905,000.00	1,905,000.00	500,000.00	500,000.00	0
07/02/86	20295	0-2-359	0001-6	910,000,000,000.00	1,904,000.00	1,905,000.00	477,690.29	477,941.17	250.88
07/02/86	20295	0-2-359	0001-6	995,000,000,000.00	1,904,000.00	1,905,000.00	522,309.71	522,584.03	274.32
07/31/86	20295	0-2-359	0003-8	952,000,000,000.00	1,904,000.00	1,904,000.00	500,000.00	500,000.00	0
08/22/86	20295	0-2-359	0018-8	961,000,000,000.00	1,911,000.00	1,911,000.00	502,878.07	502,878.07	0
08/22/86	20295	0-2-359	0018-8	950,000,000,000.00	1,911,000.00	1,911,000.00	497,121.93	497,121.93	0

4/ These deposits were recorded at an exchange rate that was effective when the deposit voucher was prepared rather than at the exchange rate in effect on the days the proceeds were actually deposited into the special account. The four deposits dated 12/30/85, above, were recorded at an exchange rate of 1,692,000.00 to the US dollar. However, they were actually deposited on 1/6/86 (7 days later) and the exchange rate effective on that date (1,771,000 to US$1) should have been used to calculate the dollar equivalent amounts. Similarly, the two 5/30/86 deposits shown above were actually deposited on 6/2/86 when the exchange rate was 1,904,000 to the US dollar, instead of the 1,905,000 to the US dollar that was used.

Date Deposit Voucher Prepared	GOB Supreme Decree Commodity Shipment Number	Treasury Account Number	Voucher Number	Amount Deposited in PL-480 Special Account In Local Currency (Pesos Bolivianos $b)	Central Bank's Highest Legal Exchange Rate	Exchange Rate Used By GOB to Record Deposits to Special Acct.	GOB Recorded Deposits in U.S. Dollars	Actual GOB Deposits Using Highest Legal Rate	Differences in U.S. Dollars
10/07/86	20295	0-2-359	012-10	990,000,000,000.00	1,918,000.00	1,918,000.00	516,162.67	516,162.67	0
10/07/86	20295	0-2-359	012-10	928,000,000,000.00	1,918,000.00	1,918,000.00	483,837.33	483,837.33	0
11/26/86	17652	0-2-318	014-11	963,000,000,000.00	1,926,000.00	1,926,000.00	500,000.00	500,000.00	0
Subtotal in Pesos Bolivianos				$b. 18,726,868,848,003.67			$85,151,571.85	$84,358,084.47	$(793,487.38)
01/26/87 5/	999999	9-9-999	020-01	1,928,400.00	1.9284	1.9284	1,000,000.00	1,000,000.00	0
05/11/87			69-5	2,020,000.00	2.0200	2.0200	1,000,000.00	1,000,000.00	0
12/30/87			203-12	1,095,000.00	2.2100	2.1900	500,000.00	497,227.27 6/	(2,272.73) 7/
03/22/88			58-3	2,250,000.00	2.2700	2.2700	991,189.43	991,189.43	0
Subtotal in Bolivianos				Bs. 7,293,400.00			$3,491,189.43	$3,488,916.70	$(2,272.73)
Grand Total in Bolivianos				Bs. 26,020,268.85			$88,642,761.28	$87,847,001.17	($795,760.11)

5/ On January 1, 1987, Bolivia's foreign currency was changed from "Pesos Bolivianos" ($b) to "Bolivianos" (Bs.) by deleting six zeros.

6/ The Executive Secretariat and UCCP Offices erroneously used an exchange rate that was effective on the date the deposit voucher was prepared (i.e. on 12/30/87 at Bs.2.19) rather than the date the proceeds were actually deposited into the program's special bank account (i.e. on 1/4/88 at Bs.2.21). This erroneous exchange rate overstated the GOB's deposit to the special account by $ 4,524.89. (Note: After the RIG/A/T audit team informed UCCP personnel about the error, UCCP personnel corrected the entry on their data processing unit without making a formal accounting entry to their books and records.)

7/ On May 5, 1988 the audit team reviewed UCCP's financial records that it kept for recording deposits to the 1978 Title III Program Special Account. During the review, we determined that UCCP accountants recorded the deposit as being made on January 3, 1988, or three days prior to the time the proceeds were actually deposited into the special account.

1985 PL 480 Title I Program
Schedule of Deposits 1/
As of May 4, 1988

Date Deposit Voucher Prepared	GOB Supreme Decree Commodity Shipment Number	Treasury Account Number	Voucher Number	Amount Deposited in PL-480 Special Account In Local Currency (Pesos Bolivianos)	Central Bank's Highest Legal Exchange Rate	Exchange Rate Used By GOB to Record Deposits to Special Acct.	GOB Recorded Deposits in U.S. Dollars	Actual GOB Deposits Using Highest Legal Rate	Differences in U.S. Dollars
09/27/85	20858	0-2-365	000210	401,450,357,936.00	1,075,000	1,075,000	373,442.19	373,442.19	- -
11/22/85	20858	0-2-365	001812	442,531,451,248.00	1,230,000	1,230,000	359,781.67	359,781.67	- -
11/26/85	20858	0-2-365	001812	99,264,896,270.00	1,342,000	1,342,000	73,967.88	73,967.88	- -
12/02/85	20858	0-2-365	001812	808,448,906,640.00	1,593,000	1,493,000	541,492.90	507,500.88	(33,992.02) 2/3/
12/23/85	20858	0-2-365	000102	50,724,377,871.00	1,628,000	1,573,000	32,246.90	31,157.48	(1,089.42) 4/
01/10/86	20858	0-2-365	000102	262,567,898,750.00	2,166,000	2,166,000	121,222.48	121,222.48	- -
01/14/86	20858	0-2-365	000102	22,065,000,000.00	2,426,000	2,426,000	9,095.22	9,095.22	- -
01/14/86	20858	0-2-365	000102	22,702,930,000.00	2,426,000	2,426,000	9,358.17	9,358.17	- -
01/17/86	20858	0-2-365	000102	790,817,982,950.00	2,519,000	2,519,000	313,941.24	313,941.24	- -
01/20/86	20858	0-2-365	000102	193,586,071,280.00	2,519,000	2,519,000	76,850.37	76,850.37	- -
01/21/86	20858	0-2-365	000102	162,243,591,250.00	2,400,000	2,400,000	67,601.50	67,601.50	- -
02/07/86	20858	0-2-365	000052	264,609,771,199.00	1,832,000	1,832,000	144,437.65	144,437.65	- -
02/12/86	20858	0-2-365	000072	80,000,000,000.00	1,828,000	1,828,000	43,763.68	43,763.68	- -

1/ This schedule of deposits listing for the period February 4, 1985 through May 4,1988 was prepared by the GOB's Executive Secretriat. The audit team reviewed this listing, and also applicable DCCP and UCCP records, for accuracy.

2/ Parentheses indicate overstated GOB recorded equivalent dollar deposits to the special account. These equivalent amounts are due the special account and should be deposited in the near future.

3/ The DCCP and Executive Secretariat Offices used an exchange rate in effect on December 1,1985 at $b1,493 to the dollar, rather than the recorded exchange rate (December 2, 1985 at $b1,593 to the dollar). This exchange rate error resulted in a GOB overstatement of $33,992.02.

4/ DCCP and Executive Secretariat financial administration personnel recorded the GOB deposit at an exchange rate effective on December 22, 1985 at $b1,573 to the dollar, rather than the recorded exchange rate (December 23, 1985 at $b1,628 to the dollar). This exchange rate error resulted in a GOB overstatement of $ 1,089.44.

Date Deposit Voucher Prepared	GOB Supreme Decree Commodity Shipment Number	Treasury Account Number	Voucher Number	Amount Deposited in PL-480 Special Account in Local Currency (Pesos Bolivianos)	Central Bank's Highest Legal Exchange Rate	Exchange Rate Used By GOB to Record Deposits to Special Acct.	GOB Recorded Deposits in U.S. Dollars	Actual GOB Deposits Using Highest Legal Rate	Differences in U.S. Dollars
02/20/86	20858	0-2-365	000013	36,600,206,370.00	1,836,000	1,836,000	19,934.75	19,934.75	- -
02/24/86	20858	0-2-365	000013	874,536,429,080.00	1,842,000	1,842,000	474,775.48	474,775.48	- -
02/27/86	20858	0-2-365	000013	338,605,722,000.00	1,851,000	1,851,000	182,931.24	182,931.24	- -
02/28/86	20858	0-2-365	000023	300,281,491,000.00	1,855,000	1,855,000	161,878.43	161,878.43	- -
05/06/86	20858	0-2-365	000085	1,372,106,451,970.00	1,906,000	1,906,000	719,887.96	719,887.96	- -
05/14/86	20858	0-2-365	000155	22,158,009,820.00	1,903,000	1,903,000	11,643.73	11,643.73	- -
05/19/86	20858	0-2-365	000155	313,511,752,310.00	1,903,000	1,903,000	164,747.64	164,747.64	- -
05/22/86	20858	0-2-365	000155	104,229,600,000.00	1,903,000	1,903,000	54,771.20	54,771.20	- -
06/06/86	20858	0-2-365	0001-9	25,704,000,000.00	1,904,000	1,904,000	13,500.00	13,500.00	- -
06/10/86	20858	0-2-365	0001-9	13,848,515,520.00	1,904,000	1,904,000	7,273.38	7,273.38	- -
06/16/86	20858	0-2-365	0020-6	3,446,696,960.00	1,905,000	1,905,000	1,809.29	1,809.29	- -
07/23/86	20858	0-2-365	0001-9	23,561,290,020.00	1,904,000	1,904,000	12,374.63	12,374.63	- -
02/17/86	21070	0-2-372	000052	58,728,321,680.00	1,826,000	1,826,000	32,162.28	32,162.28	- -
02/28/86	21070	0-2-372	000023	68,398,323,280.00	1,855,000	1,855,000	36,872.41	36,872.41	- -
03/12/86	21070	0-2-372	000014	535,803,375,000.00	1,878,000	1,878,000	285,305.31	285,305.31	- -
03/14/86	21070	0-2-372	000014	565,714,980,600.00	1,888,000	1,888,000	299,637.17	299,637.17	- -
05/06/86	21070	0-2-372	000085	6,200,354,783,190.00	1,906,000	1,906,000	3,253,071.76	3,253,071.76	- -
05/20/86	21070	0-2-372	000155	539,586,720,000.00	1,902,000	1,902,000	283,694.38	283,694.38	- -
05/21/86	21070	0-2-372	000155	78,878,260,440.00	1,902,000	1,902,000	41,471.22	41,471.22	- -
05/22/86	21070	0-2-372	000155	330,729,676,120.00	1,903,000	1,903,000	173,793.84	173,793.84	- -
05/23/86	21070	0-2-372	000155	1,107,286,481,000.00	1,904,000	1,904,000	581,558.03	581,558.03	- -
05/27/86	21070	0-2-372	000155	272,522,523,680.00	1,905,000	1,905,000	143,056.44	143,056.44	- -
05/30/86	21070	0-2-372	0016-6	190,500,000,000.00	1,905,000	1,905,000	100,000.00	100,000.00	- -
06/05/86	21070	0-2-372	0001-9	55,000,000,000.00	1,904,000	1,904,000	28,886.55	28,886.55	- -
06/10/86	21070	0-2-372	0001-9	142,818,912,000.00	1,904,000	1,904,000	75,009.93	75,009.93	- -
06/16/86	21070	0-2-372	0020-6	1,334,354,715,840.00	1,905,000	1,905,000	700,448.67	700,448.67	- -
06/20/86	21070	0-2-372	0001-9	455,501,312,940.00	1,904,000	1,904,000	239,233.88	239,233.88	- -

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Date Deposit Voucher Prepared	GOB Supreme Decree Commodity Shipment Number	Treasury Account Number	Voucher Number	Amount Deposited in PL-480 Special Account In Local Currency (Pesos Bolivianos)	Central Bank's Highest Legal Exchange Rate	Exchange Rate Used By GOB to Record Deposits to Special Acct.	GOB Recorded Deposits in U.S. Dollars	Actual GOB Deposits Using Highest Legal Rate	Differences in U.S. Dollars
06/27/86	21070	0-2-372	0001-9	453,164,181,828.00	1,905,000	1,905,000	237,881.46	237,881.46	
06/27/86	21070	0-2-372	0001-9	900,000,000,000.00	1,905,000	1,905,000	472,440.94	472,440.94	
07/10/86	21070	0-2-372	0001-9	667,821,837,740.00	1,903,000	1,903,000	350,931.08	350,931.08	
07/15/86	21070	0-2-372	0010-7	151,496,860,590.00	1,904,000	1,904,000	79,567.68	79,567.68	
07/23/86	21070	0-2-372	0001-9	900,000,000,000.00	1,904,000	1,904,000	472,689.08	472,689.08	
07/23/86	21070	0-2-372	0001-9	900,000,000,000.00	1,904,000	1,904,000	472,689.08	472,689.08	
07/23/86	21070	0-2-372	0001-9	427,636,348,480.00	1,904,000	1,904,000	224,598.92	224,598.92	
07/29/86	21070	0-2-372	0001-9	440,269,290,250.00	1,905,000	1,905,000	231,112.49	231,112.49	
07/29/86	21070	0-2-372	0001-9	900,000,000,000.00	1,905,000	1,905,000	472,440.94	472,440.94	
08/05/86	21070	0-2-372	0009-9	26,016,127,800.00	1,906,000	1,906,000	13,649.59	13,649.59	
Subtotal of deposits in Pesos Bolivianos				$b 24,732,192,432,902.00			13,294,932.71	13,259,851.27	
06/26/87	20858	0-2-365	98-6	Bs. 35,169.19	2.06 5/	2.06	17,072.42	17,072.42	
Subtotal of Deposits Bolivianos				Bs. 35,169.19			17,072.42	17,072.42	
Grand Total in Bolivianos				Bs.24,767,361.62			$13,312,005.13 6/	$13,276,923.69	($35,081.44)

5/ On January 1, 1987, Bolivia's foreign currency was changed from "Pesos Bolivianos" ($b) to "Bolivianos" (Bs.) by deleting six zeros.

6/ As of May 4, 1988, UCCP's accounting of Title I deposits differed from the Executive Secretariat's recorded balances by $313,486.08 UCCP's recorded deposits to the 1985 Title I Special Account totaled Bs.24,767,361 or $12,998,519.05.

1986 PL 480 Title III Program
Schedule of Deposits
As of May 4, 1988 1/

Date Deposit Voucher Prepared	GOB Supreme Decree Commodity Shipment Number	Treasury Account Number	Voucher Number	Amount Deposited in PL 480 Special Account In Local Currency (Pesos Bolivianos)	Central Bank's Highest Legal Exchange Rate	Exchange Rate Used by GOB to Record Deposits to Special Account	GOB Recorded Deposits in U.S. Dollars	Actual GOB Deposits Using Highest Legal Rate	Differences in U.S. Dollars
10/15/86	21308	0-2-375	005-11	900,000,000,000.00	1,922,000.00	1,922,000.00	468,262.23	468,262.23	
10/15/86	21308	0-2-375	005-11	900,000,000,000.00	1,922,000.00	1,922,000.00	468,262.23	468,262.23	
10/15/86	21308	0-2-375	005-11	900,000,000,000.00	1,922,000.00	1,922,000.00	468,262.23	468,262.23	
10/15/86	21308	0-2-375	005-11	900,000,000,000.00	1,922,000.00	1,922,000.00	468,262.23	468,262.23	
10/15/86	21308	0-2-375	005-11	488,643,736,775.00	1,922,000.00	1,922,000.00	254,237.12	254,237.12	
10/15/86	21308	0-2-375	005-11	900,000,000,000.00	1,922,000.00	1,922,000.00	468,262.23	468,262.23	
10/22/86	21308	0-2-375	0001-1	550,881,607,010.00	1,922,000.00	1,922,000.00	286,618.94	286,618.94	
10/23/86	21308	0-2-375	0001-1	104,220,000,000.00	1,922,000.00	1,922,000.00	54,224.77	54,224.77	
10/28/86	21308	0-2-375	0001-1	454,234,909,000.00	1,922,000.00	1,922,000.00	236,334.50	236,334.50	
11/07/86	21308	0-2-375	0001-1	265,127,709,530.00	1,924,000.00	1,924,000.00	137,800.26	137,800.26	
11/07/86	21308	0-2-375	0001-1	900,000,000,000.00	1,924,000.00	1,924,000.00	467,775.47	467,775.47	
11/07/86	21308	0-2-375	0001-1	900,000,000,000.00	1,924,000.00	1,924,000.00	467,775.47	467,775.47	
11/11/86	21308	0-2-375	0001-1	231,953,221,500.00	1,924,000.00	1,924,000.00	120,557.81	120,557.81	
12/10/86	21308	0-2-375	017-12	900,000,000,000.00	1,926,000.00	1,926,000.00	467,289.72	467,289.72	
12/10/86	21308	0-2-375	017-12	900,000,000,000.00	1,926,000.00	1,926,000.00	467,289.72	467,289.72	
12/10/86	21308	0-2-375	017-12	900,000,000,000.00	1,926,000.00	1,926,000.00	467,289.72	467,289.72	
12/10/86	21308	0-2-375	017-12	900,000,000,000.00	1,926,000.00	1,926,000.00	467,289.72	467,289.72	
12/10/86	21308	0-2-375	017-12	793,054,003,730.00	1,926,000.00	1,926,000.00	411,762.20	411,762.20	
12/10/86	21308	0-2-375	017-12	900,000,000,000.00	1,926,000.00	1,926,000.00	467,289.72	467,289.72	
12/10/86	21308	0-2-375	017-12	900,000,000,000.00	1,926,000.00	1,926,000.00	467,289.72	467,289.72	
12/15/86	21308	0-2-375	021-12	19,260,000,000.00	1,924,000.00	1,924,000.00	10,010.40	10,010.40	
Subtotal				$b14,607,375,187,545.00			$7,592,146.41	$7,592,146.41	

1/ The above schedule of deposits for the period April 9, 1986 through May 4, 1988 was prepared by the GOB's Executive Secretariat. The audit team reviewed the accuracy of the Executive Secretariat's schedule as well as applicable UCCP records.

Date Deposit Voucher Prepared	GOB Supreme Decree Commodity Shipment Number	Treasury Account Number	Voucher Number	Amount Deposited in PL 480 Special Account In Local Currency Bolivianos 5/	Central Bank's Highest Legal Exchange Rate	Exchange Rate Used by GOB to Record Deposits to Special Account	GOB Recorded Deposits in U.S. Dollars	Actual GOB Deposits Using Highest Legal Rate	Differences in U.S. Dollars
01/16/87	21308	0-2-375	0009-1	5,518,962.53	1.9259	1.9259	2,865,653.74	2,865,653.74	
01/20/87	21308	0-2-375	0019-1	982,369.08	1.9260	1.9260	509,897.79	509,897.79	
03/09/87	21308	0-2-375	045A-3	295,019.62	1.9549	1.9549	150,912.90	150,912.90	
03/25/87	21308	0-2-375	0044-3	7,468,841.31	2.0000	2.0000	3,734,420.66	3,734,420.66	
06/26/87	21308	0-2-375	0095-6	5,902,615.88	2.0000	2.0000	2,805,347.51	2,805,347.51	
11/03/87	21308	0-2-375	175-11	762,236.64	2.1300	2.1300	357,857.58	357,857.58	
11/05/87	21308	0-2-375	179-11	352,577.67	2.1400	2.1400	164,755.92	164,755.92	
01/27/88	21690	0-2-379	0014-1	5,431,957.61	2.2200	2.2300	2,435,855.43	2,446,827.75	10,972.32 3/
02/12/88	21690	0-2-379	0030-2	524,482.31 2/	2.2300	2.2300	235,193.86 2/	235,193.86 2/	
02/29/88	21690	0-2-379	0036-2	1,784,768.08	2.2500	2.2500	793,230.26	793,230.26	
03/22/88	21690	0-2-379	0057-2	576,170.78 2/	2.2700	2.2700	253,819.73 2/	253,819.73 2/	
04/07/88	21690	0-2-379	72-4	3,072,466.08	2.2900	2.2900	1,341,688.51	1,341,688.51	
04/15/88	21690	0-2-379	73-4	3,225,781.13	2.3000	2.3000	1,402,513.53	1,402,513.53	
Subtotal				Bs 35,898,249.32			$17,111,147.42	$17,122,119.74	
Total				Bs 50,505,624.51			$24,703,293.83	$24,714,266.15	$10,972.32 4/

2/ On May 5, 1988 UCCP management personnel provided the RIG/A/T audit team a copy of UCCP's official May 4, 1988 record of GOB deposits to the 1986 Title III special account. Shortly after the auditors began reviewing the schedule, UCCP accountants notified the audit team that two deposits totaling $489,013.59 had been left off the official deposit record. One deposit had been made on February 23, 1988 for $235,193.86, and the other was made on March 22, 1988 for $253,819.73. UCCP quickly added the deposits to their word processing unit data base and provided the auditors with a copy of the new "official" deposit record.

3/ UCCP and Executive Secretariat personnel recorded this GOB deposit at an exchange rate effective on January 26, 1988 at $b2.23 to the dollar, rather than the recorded date (January 27, 1988 at $b2.22 to the dollar). This exchange rate error resulted in a GOB understatement of $10,972.32.

4/ This annotated amount can be applied as a reduction in the arrearage balance owed by the GOB to the PL 480 1986 Title III Program.

5/ On January 1, 1987, Bolivia's foreign currency was changed from "Pesos Bolivianos" ($b) to "Bolivianos" (Bs.) by deleting six zeros.

SUMMARY OF IDENTIFIED PL 480 INTERPROGRAM LOANS

From 1978 Title III to Title I	$ 485,820	
From 1978 Title III to Disaster Recovery Project	1,646,211	
Total Identifiable 1978 Title III Loans		$ 2,132,031
From 1986 Title III to CAE Program 1/	3,420,000	
From 1986 Title III to 1978 Title III	2,500,000	
Total Identifiable 1986 Title III Loans		5,920,000
From 1985 Title I to 1978 Title III	2,234,209	
From 1985 Title I to Disaster Recovery Project	153,649	
Total Identifiable 1985 Title I Loans		2,387,858
Identifiable Loan Portfolio		$10,439,889
From 1978 Title III to Title II. (These loans were not recorded by the Executive Secretariat or the UCCP.)		2,645,075
Total Loans Identified by Audit		$13,084,964

1/ CAE stands for Credito Agricola de Emergencia (Emergency Agricultural Credit).

FUNDS IDENTIFIED BY THE ACCOUNTING FIRM TELLERIA ORMACHEA AND TROCHE IN THEIR JUNE 1, 1988 FINANCIAL AUDIT

Page(s)	U.S. Dollar Equivalents Interest Earned	Unused Funds
31-33	20,558	48,500
35-37	76,534	3,710
37		41,030
38		2,355
40	30,157	59,271
40	75,153	
41	34,140	36,223
41	26,330	
42	30,406	98,908
42	7,557	
43	10,499	12,741
46	10,281	
47	13,846	34,945
47	8,006	
48	24,492	32,077
50-51	12,204	16,000
51	32,291	
52	9,500	
55-56	69,163	88,000
56		101,000
57	18,975	
57	39,435	
58-59	12,645	623,000
59	33,390	
61	12,093	
62-64	39,879	110,497
64	36,448	18,000
66	128,410	
Total Interest Earned by Executive Secretariat	$817,392	
Total Unused PL 480 Funds at ICIs		$1,326,257

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MANAGEMENT COMMENTS

This appendix is a transcript of the official USAID/Bolivia response to the draft audit report. Their response was transmitted by memorandum dated January 18, 1989, and was signed by the Acting Director. Office of Inspector General comments for each pertinent issue are included.

MANAGEMENT COMMENTS

We believe that the primary target of this audit -- the PL 480 Executive Secretariat -- despite acknowledged flaws that are being remedied, is an island of excellence in a sea of institutional mediocrity. The successful discharge of the Secretariat's local currency mediation function is widely acknowledged within Bolivia and by other Missions with Title I/III programs. In fact, we believe that the Secretariat is a model to be emulated in other Title I/III programs where local currency is projectized.

OFFICE OF INSPECTOR GENERAL (OIG) COMMENT

The only objective of this audit was to determine whether or not there was adequate accountability for local currency in Bolivia. Unfortunately, there was no assurance that these funds had been used for agreed upon purposes. The Executive Secretariat is clearly not the model for adequate accountability for local currencies.
Bolivia's Executive Secretariat may well become the model envisioned by USAID/Bolivia when deficiencies in accounting, administration, organization, and internal controls are corrected.

MANAGEMENT COMMENTS

This memo constitutes USAID/Bolivia's formal response to subject draft audit report. Mission comments are provided for each section in the report as follows:

Executive Summary

The Executive Summary, as presently written, does not, in our opinion, accurately reflect the management situation of the PL 480 Program and the steps that USAID/Bolivia has initiated to improve management systems. Other sections contain misleading and erroneous information. We believe the summary should be essentially redrafted to more adequately reflect the fact that USAID/Bolivia did have in place the basic management systems to manage and control the local currency program, but that the system was simply not functioning adequately....

OIG COMMENT

Finding No. 1 demonstrates that the local currency program was already six years old before USAID/Bolivia established a monitoring capability.

MANAGEMENT COMMENTS

... The Mission itself realized that there were problems and had initiated actions previous to the arrival of the auditors to correct deficiencies. The Executive Summary gives the impression that the corrective action is only recent and results purely from auditor's recommendations, and not Mission initiative. In fact, on page ii the auditors mention that the Mission "recently" had initiated action to correct "some" deficiencies, when it would have been more appropriate to say that in February, 1988 the Mission had taken concrete steps to correct management problems detected under the Telleria report....

OIG COMMENT

Other than in several meetings and conversations during this audit concerning what USAID/Bolivia planned to do, there was no evidence that "concrete steps" had already been taken in February 1988 to correct management problems detected in the accounting firm report. This audit started on March 7, 1988. Concrete steps taken by USAID/Bolivia to improve its own monitoring capability subsequent to the start of the audit were: the issuance of an April 1988 directive on the local currency program, the formalization of the duties of certain local currency personal services contractors through contract amendments issued in April 1988, and plans to augment its local currency staffing.

MANAGEMENT COMMENTS

... It is also important to point out that previous local independent audits had given the management system a clean bill of health, and had not drawn USAID/Bolivia's attention to potential management and control problems. In essence USAID/Bolivia had independent verifications that the program was operating efficiently. Only after discussions with Telleria did the evidence of problems emerge and corrective actions initiated.

OIG COMMENT

Finding No. 1 recognizes that three previous financial reviews had given a generally positive impression of host government financial practices. Finding No. 1 also notes that a July 1987 evaluation report advised USAID/Bolivia that accounting, internal control, and reporting deficiencies existed as far back as June 1984.

MANAGEMENT COMMENTS

With reference to other parts of the Executive Summary, we have the following comments:

A. Page IV, states that adequate controls had not been established and that there was no assurance the $93 million in local currency proceeds had been disbursed for mutually agreed upon purposes. We take strong exception to this statement. We believe that such statements are unnecessary and border on the sensational. Neither the auditors nor this Mission have enough evidence to prove this statement. Although some controls may not be completely in place, the Mission questions the auditor's use of the $93 million figure. USAID/Bolivia issues implementation letters for each project funded with local currency and determines that funds are used for the purposes expressly stated in the agreements.

   Based on the implementation letter the ES disburses funds to projects. The ES only disburses funds after the appropriate financial documentation has been provided showing expenditures of previously disbursed funds. The Mission agrees that there may not be complete assurances and verification that all funds have been disbursed for mutually agreed upon purposes. However, it is unconscionable that a non-verified figure of $93 million be used to exaggerate a point the auditors wish to make.

OIG COMMENT

The accounting firm of Telleria Ormachea and Troche issued an "adverse opinion." The reconstruction of 10 years of accounting records, strengthening of internal controls, concurrent auditing, and establishment of such basics as accounts receivables for loans may in the near future enable the executing entities to obtain a "positive certification" that funds were used for intended purposes. Also, "verification" is a basic audit technique. It is used by government and external auditors in accordance with prescribed auditing and accounting standards. It should also be used by managers as a monitoring tool. Had USAID/Bolivia verified reports and transactions on a periodic basis, several of the problems identified in this report could have been flagged and corrected. Using prescribed standards, the accounting firm verified local currency disbursements totaling $96.7 million as of their established cut-off date (see page 4 of the firm's report). Using the same standards, we verified $93 million equivalent in disbursements as of our established cut-off date (a month earlier than that of the accounting firm). USAID/Bolivia's statement, that the $93 million equivalent is non-verified, is erroneous.

MANAGEMENT COMMENTS

B. Page IV, also cites the issue of exchange rate errors. The Mission does not agree with the interpretation of this issue and discusses it at length under Finding No. 2.

C. Page V, contains incorrect information in that it states that the Mission almost signed the FY88 Agreement with incorrect delinquent deposit figures. This analysis is erroneous and is explained under Finding No. 1.

D. On page VI, the report states that granting of full forgiveness is based on the value of the Bolivian peso when it was deposited is contrary to the legislation and agreement. According to guidance the Mission has received from Washington, the auditor's interpretation is incorrect and such procedures are inconsistent with the legislation. This issue is also discussed at length under Finding No. 4.

OIG COMMENT

These points are addressed on pages 10, 12, 15, 16, 17 and 18 of this appendix.

MANAGEMENT COMMENTS

E. The Mission would like to express its concern that many points raised in this report were addressed by Mission responses to the RAF's. Even though the Mission took a great deal of time to respond to issues raised by the auditor's in those RAF's, there is absolutely no evidence that Mission comments were taken into account. The Mission is thus forced to reiterate its position vis a vis those issues and refute erroneous positions taken by the auditors. This repetition results in a tremendous investment of Mission staff time.

OIG COMMENT

Nine records of audit finding (RAFs) were issued during the audit. The Acting Director withdrew USAID/Bolivia's response to RAF No. 1 because it used an Inspector General cable to depict management actions. USAID/Bolivia's response to RAFs No. 2 and 5 included certain valid points that were incorporated into the draft audit report, and RAF No. 3 was dropped in its entirety from both the draft and this report. USAID/Bolivia responses to RAFs No. 4, 6, 7, 8 and 9 had not been formalized by audit conclusion. Those responses that were subsequently formalized were considered in the preparation of this report.

MANAGEMENT COMMENTS

F. We don't believe that the PL 480 report should be combined with the ESF program. We remind you that only a part of the 1986 ESF local currency was run through PL 480. In our opinion, these resources were well managed by the ES, and should not affect your assessment of the management of PL 480 funds. The title of the audit should also be changed to reflect that only PL 480 local currency management is addressed in this report.

OIG COMMENT

Local currency generated by the ESF was commingled with that generated by PL 480. Deficiencies noted in this report affect the ESF local currency component as well. The U.S. Comptroller General has set forth the standards that must be followed by Federal auditors. The type of audit and its scope and title are based on these standards.

MANAGEMENT COMMENTS

G. As mentioned in our ESF response, full and complete local currency guidance was first issued in 1987, long after the first PL 480 program was signed in 1978. We continue to insist that PD-5 did not provide AID missions with specific guidance as to how local currency programs were to be monitored, thus the reason why USAID/Bolivia may not have exercised a higher degree of monitorship over this program. Since the October 1987 guidance, however, the Mission has taken rapid and responsible action to be in compliance. This should be reflected in the Executive Summary.

OIG RESPONSE

Paragraph 2 of the Executive Summary recognizes management improvements.

MANAGEMENT COMMENTS

PART I. Introduction

A. Background

We have no comments on this section.

B. Audit Objectives and Scope

We have no comments on this section.

PART II. Results of Audit

Mission cannot accept pages four and five as presently written. These pages contain similar inaccuracies to those pointed out under the Executive Summary. Specifically the Mission takes exception to the comment that neither USAID/Bolivia nor the GOB had adequate accounting and internal controls to insure that local currency proceeds were used for agreed upon purposes. The statement gives the impression that there is no assurance that any of the funds went for agreed upon purposes when in fact we can be reasonably sure that they were spent as agreed to in the relevant implementation letters. The Mission would accept a statement that the management system did not allow a complete verification that all funds disbursed to projects were used for agreed upon purposes and that the internal control system must be improved. The blanket statement is highly misleading.

OIG COMMENT

In light of the accounting firm's adverse opinion, we do not concur with USAID/Bolivia or its suggestion to change the conclusion.

MANAGEMENT COMMENTS

A. Findings and Recommendations

Recommendation No. 1

"We recommend that USAID/Bolivia install appropriate accounting and internal controls by:

a) obtaining evidence that the Government of Bolivia has reconstructed accounting records for the Public Law 480 and Economic Support Fund local currency programs from May 1978 through September 1988 and obtaining a certification from a public accounting firm that the local currency was used for intended purposes,

b) arranging for a concurrent audit of local currency programs from October 1988 on,

c) periodically reviewing source documentation supporting host government financial reports and providing assistance to correct any problems found, and

d) requiring USAID/Bolivia Controller review and clearance of cable and formal communications that contain fiscal data pertaining to Public Law 480 Titles I and III, and Economic Support Fund local currency programs."

Response

The Mission agrees that appropriate accounting and internal controls be improved. For that reason USAID/Bolivia had hired the management consulting firm, Price Waterhouse, to restructure the ES and establish the necessary financial controls for better management of the program. Documentation to hire Price Waterhouse was initiated by the Mission prior to the beginning of the audit, as a result of the findings of our own local audit and at our own initiative. The report ignores the Mission's efforts to correct these problems and incorrectly implies that this was done as a result of the audit.

With regard to recommendations a) and b), the Mission has already informally solicited the services you recommend for reconstructing the records. However, the amount estimated for this was $175,000, a substantial cost when taking into account the benefits to be received from this tedious exercise. As a result, the ES is already trying to reconstruct previous years' activities and update those activities to June 30, 1989. Your recommendation b) is already being acted upon (with the cooperation of your non-federal audit group), but we obviously cannot comply with the October, 1988 date (concurrent audit means the auditor must be on-board at the start of the fiscal year). We plan to have the concurrent audit begin July 1, 1989. AID will fund the audit for the six months ending December 1989, with subsequent FY audits being funded by PL 480. The scope of work for the concurrent audit will also include certification by the auditor that balances as of June 30, 1989, accurately reflect the financial position of the PL 480 program. Balances as of June 30, 1989, will be as a result of the work that the PL 480 ES is currently doing on reconstructing the records. We, therefore, recommend that recommendations a) and b) be deleted from the final report.

OIG COMMENT

USAID/Bolivia's plans to reconstruct records and to obtain positive certifications are consistent with recommendation No. 1. Parts a. and b. of the recommendation are resolved and may be closed when management actions are complete.

MANAGEMENT COMMENTS

Mission believes that point d, under Finding No. 1 is misleading. The comment gives the impression that the Controller's Office does not review and clear all cables and formal communications that contain fiscal data pertaining to PL 480 Programs. Since the Controller's Office is on for clearance for all documentation, USAID/Bolivia believes that the recommendation only underlines a process that is already in place, that is, that the Controller's Office always clears major documentation. It is possible that not all internal memoranda may always be cleared by the Controller, but all major documentation pertaining to the PL 480 Program must receive that office's clearance.

OIG COMMENT

Appendix 3 contains examples of major documentation not cleared by the controller. Also, LA PAZ 16027, dated December 8, 1988, was a major communication sent to A.I.D./Washington regarding means of closing out the $90.7 million 1978 PL 480 Title III program. This cable, attached as part of USAID/Bolivia's response to the audit, was drafted by a PSC, cleared by the Office Director and approved by the Mission Director. There was no evidence that the cable had been cleared by the controller.

MANAGEMENT COMMENTS

For example, on page 11 the auditors claim that USAID/Bolivia was about to execute the 1988 Amendment to the 1986 PL 480 Title III Program with a potential $5.3 million equivalent arrearage error therein, and that the Controller's Office had not cleared the draft amendment.

First, it is important to point out that the draft amendment was just that, a draft. The wording in that draft stated that the GOB was to repay 10 million dollars in delinquent deposits from the FY78, FY85 and FY86 deposits in equal installments....

OIG COMMENT

In a meeting held on May 3, 1988, responsible officials of USAID/Bolivia agreed to delay the signing of the 1988 amendment until the cumulative debt figure was determined through audit. Also, the wording in the draft was that the GOB would agree to deposit $1.0 million [equivalent] per month over 10 months into the PL 480 special account to cover past debt accumulated under the FY 78, FY 85 and FY 86 programs. Finally, at the May 3, 1988 meeting, USAID/Bolivia officials expressed their desire to formalize and execute the amendment within 10 days.

MANAGEMENT COMMENTS

... The fact is that the debt from those three years was $10 million and that the Mission had not yet included the debt from the FY87 program in the total owed. This omission was due to a GOB promise to liquidate that debt incurred through sales of wheat to the military under the FY87 program before the signing of the FY88 Agreement. The Mission was awaiting confirmation from the GOB whether or not payment would be made. Once it was confirmed that no payments for these sales would be made, USAID made the appropriate adjustments in the figures....

OIG COMMENT

The debt was cumulative from the time that the first PL 480 agreement was executed 10 years ago. USAID/Bolivia changed the language of the amendment after consulting with audit. There was no evidence that USAID/Bolivia was awaiting confirmation that 1987 debt would be liquidated. In fact, USAID/Bolivia was well aware of the military's inability to pay.

MANAGEMENT COMMENTS

... The contention that the auditors prevented a $5.3 million error does not appear to be substantiated by the facts, since USAID was aware of the FY87 debt, and was awaiting a final GOB decision before including it in the total debt figure.

OIG COMMENT

The cumulative debt was verified through audit, and was disseminated to USAID/Bolivia, which in turn, made prompt corrective actions in the amendment.

MANAGEMENT COMMENTS

The contention that the Controller's Office had not cleared the draft is true to a point. The draft document had been passed to the Controller's Office for comments and clearance, but it had not provided their input at the time the auditor's cite. The document was thus in Controller's hands for comments and those comments and/or observations would have been incorporated into the document before it was placed in final form for signing. This fact was demonstrated with documentation presented to the auditors during their visit.

OIG COMMENT

We agree that the controller had not cleared the draft.

MANAGEMENT COMMENTS

Mission can accept the general recommendation regarding controller's clearance as a reaffirmation of Mission policy, but suggests that the auditors revise their commentary to remove the erroneous statements regarding Controller's clearance of the FY88 agreement and the potential $5.3 million error.

OIG COMMENT

Part d. of recommendation No. 1 is resolved. Commentary on the potential error has been retained.

MANAGEMENT COMMENTS

Finding 2. Delinquent Deposits Could Total More Than 15.3 Million

Recommendation No. 2

"We recommend that USAID/Bolivia:

a) determine the highest legal exchange rates on the dates that deposits were actually made into the Public Law 480 special accounts and have the Government of Bolivia make corresponding adjustments,

b) have the Government of Bolivia immediately deposit into the 1978 Public Law 480 Title III and 1985 Public Law 480 Title I special accounts $795,760 equivalent and $35,081 equivalent related to exchange rates errors, including any accrued interest: and reduce the arrearage balance owed the 1986 Public Law Title III Special Account by an equivalent $10,972, including interest accrued. These values are based on audit review of errors made when the deposit vouchers were prepared.

c) advise the Government of Bolivia that if the repayment schedule established in the draft 1988 amendment to the 1986 Public Law 480 Title III Agreement is not adhered to, that termination clauses in the applicable Public Law 480 agreements will be exercised, and

d) request responsible GOB host country institutions report to USAID/Bolivia the cumulative status of delinquent deposits as well as each deposit made during a reporting period."

Response

The major point the Mission would like to refute here is the contention of exchange rate errors. According to the auditors there were $795,760 equivalent in losses due to the use of erroneous exchange rates under the 1978 Program, and therefore the figures used by the Mission in determining the amount of delinquent deposits under the Program were not accurate. However, according to guidance from Washington, the issue of such exchange rate errors is irrelevant.

According to guidance contained in State Cable 339785 (CY-88, copy attached), "The level of local currencies needed to be deposited into the Special Account is calculated by using the exchange rate on the day(s) of the CCC credit disbursement(s),

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as provided in the Agreement." According to this statement and controller's figure, the GOB would have been required to deposit 28 billion pesos. However since the GOB used different rates of exchange, it actually deposited over 40 trillion pesos, more than enough to qualify for compliance under the Agreement. Given this interpretation, the issue of exchange rate losses is not relevant, since the GOB did not have to use the exchange rate in effect on the date of deposit into the special account as interpreted by the auditors, but the exchange rate in effect on the date of the CCC disbursement, as shown in the cited cable. Thus, no adjustments as referred to under point a, of finding No. 2, are required, and that the exchange losses referred to in 2.b, result from a misinterpretation by the auditors, and do not represent GOB debt.

OIG COMMENT

While the cable cited by USAID/Bolivia accurately cites legislative intent, a September 28, 1984 General Counsel opinion advised that "...the agreement (not the statute) tells what exchange rate is to be used, and as of what point in time." The PL 480 agreements call for Bolivia to make deposits using the selling rates established by its Central Bank on the dates the deposits are made. Therefore, parts a. and b. of recommendation No. 2 are unresolved.

MANAGEMENT COMMENTS

Under point 2, c. the Mission is in agreement as to the severity of the GOB's incompliance with repayment schedules, and has advised the GOB that future programs will be in jeopardy if they do not adhere to agreed upon schedules.

The Mission will continue to bring pressure to bear and will take necessary actions to ensure repayment of all outstanding debt. However, given the political importance of the Program to both governments, it is not practical for USAID/Bolivia to threaten the GOB with termination and then follow through with such measures. The Mission will utilize all the leverage possible to ensure GOB compliance, but is unwilling to accept the drastic recommendation from the auditors. We suggest that the wording be changed in such a way that the recommendation state the Mission should bring all necessary pressure to bear on the GOB, and threaten to sign no new agreements, or alternatively, convert them to Title I programs, if repayment schedules are not adhered to as per established agreements. The DCC has agreed to this approach by providing its concurrence to the new GOB repayment schedule and stipulating that any new agreements will depend on GOB compliance with that schedule. The DCC has stated that it will accept no modified repayment schedules from the GOB in the future. During formal negotiation of the FY89 amendment, the Mission will inform the GOB that no new repayment schedules will be accepted and that the signing of any future PL 480 agreements will depend on GOB compliance with the latest repayment schedule.

It is also important to remember that economic circumstances in Bolivia do not always permit the GOB to adhere to payment schedules to which is has committed itself in good faith. The GOB has faced serious liquidity problems over the last four years which has made it impossible for it to pay its debts. Bolivia has just completed the second Paris Club negotiations which will result in a second debt rescheduling agreement with all major bilateral donors, including the U.S.. This is explicit recognition of the serious financial situation in which Bolivia finds itself. Recognition of these circumstances also limits the ability of USAID/Bolivia to apply undue pressure and threats of program termination. Communication of the new DCC directive and clear Mission attention to the situation should be sufficient to ensure GOB compliance in the future.

OIG COMMENT

This is now part d. of recommendation No. 2. The effect of signing no new agreements, and of accepting no modified repayment schedules is the same as that recommended in part d. of recommendation No. 2. On this basis part d. is resolved.

MANAGEMENT COMMENT

The recommendation under point d, is already operative. Status of deposits is immediately reported by the ES to USAID/Bolivia. When problems arise USAID/Bolivia discusses issues directly with the Sub-Secretary of Finance who also serves as the President of the Joint Commission of Rural Development. USAID/Bolivia is already complying with this recommendation.

OIG COMMENT

This is now part e. of recommendation No. 2. Part e. of recommendation No. 2 is resolved.

MANAGEMENT COMMENTS

In conclusion, the Mission would like to call the auditors' attention to the following statement on page 15.. "Also, use of unverified data almost resulted in a $5.3 million equivalent error in the most recent PL 480 Title III agreement amendment." The Mission suggests that this erroneous statement be deleted from the final report. Mission has already demonstrated in its response under finding No. 1 that it had control of the figures and that the final agreement would not have been signed with inaccurate data. The auditors themselves recognize the Mission's point on this issue on page 21, where it states "past debt accumulated under the FY78, FY85 and FY86 program." In that draft document no mention as yet had been made regarding the FY87 payments which were still pending and which the Mission knew to be $7.8 million. Thus, the auditors cannot interpret from this that the final FY88 agreement would have omitted the FY87 debt. Therefore, this entire discussion is irrelevant and should not be included in the final report since the auditors are taking the credit for a situation the Mission had under control.

OIG COMMENT

USAID/Bolivia did not demonstrate under finding No. 1 that it had control of the arrearages. USAID/Bolivia is also well aware that "past debt accumulated under the FY78, FY85 and FY86 program" is a direct quote from the 1988 draft amendment, and refers to the Title III agreement that was signed in 1978, the Title I agreement signed in 1985, and the Title III agreement executed in 1986.

MANAGEMENT COMMENTS

Finding 3. Bolivia's Ministry of Defense and the National Police Owed $7.8 Million Equivalent for Wheat Flour

Recommendation No. 3

"We recommend that USAID/Bolivia cancel all future Public Law 480 Title I and Title III wheat consignments earmarked for Bolivia's Ministry of Defense and for its National Police until $7,780,856 equivalent has been deposited into the Public Law 480 programs' special accounts. Further, the Government of Bolivia should be advised that the delivery of the fiscal year 1988 consignment could be in jeopardy if this debt is not promptly paid."

Response

The use of the word 'earmarked' is incorrect since no wheat flour was preassigned to the military or the police, but rather the flour was simply sold to these government institutions. USAID/Bolivia tried unsuccessfully to prevent sales to the military without the corresponding payment under the FY87 program (see attached letter). Due to its lack of success in this area, USAID/Bolivia has instituted control measures within the system that will call its attention to contemplated sales to the military and police forces. In addition, in all agreements starting with that of FY88, all deposits to the special account will by-pass the GOB Treasury and will be made directly to the special account by the millers. This will avoid any delays by the Treasury in transferring the funds to the ES. Another stipulation is that the GOB agree to make all payments of military wheat sales within 30 days of receipt. Adherence to these stipulations by the GOB will help USAID/Bolivia avoid those problems which arose under the 1987 Program.

Sales to the military and police per se do not contravine the Agreement, and will in all probability continue, but USAID/Bolivia will monitor sales to ensure that no deliveries are made for which there is no immediate payment. The Sub-Secretary of Finance has agreed to collaborate with the Mission on this issue. He will only permit the transfer of wheat flour stocks to those entities if, and only if, funds are available for transfer into the special account.

The recommendation for prompt payment of the $7.8 million by the GOB is not a practical recommendation as presently expressed. USAID/Bolivia has already agreed to include the debt from the FY87 military sales in the GOB's repayment schedule. As the repayment process works, all funds provided by the GOB as debt repayment will be counted against the oldest outstanding debt, that is all present payments are counted against funds owed to the 1985 Title I Program. (The 1978 program is completely repaid.) Thus, even though the $7.8 million will be re-paid over time, it may not be necessarily done immediately, since the 1985 debt will be liquidated first. This repayment schedule has been agreed to by the DCC.

In addition, since the FY88 wheat has already arrived in port, the Mission simply cannot advise the GOB that such delivery is in jeopardy if there is not prompt payment. In fact, the FY88 wheat is already being sold in the market and funds are being generated. This situation indicates that the language conditioning FY88 wheat shipments on prompt payment is both impractical and impossible to enforce. Mission thus, recommends that this part of the recommendation be omitted since the time for compliance with it has already passed.

Mission suggests that the recommendation simply state that USAID/Bolivia ensure that no new deliveries of wheat are made to the military without prior knowledge of the financial authorities in the country and that it has the assurance from these authorities that funds are available and that the necessary transfers will be made.

OIG COMMENT

This finding has been incorporated into finding No. 2. The recommendation is now part c. of recommendation No. 2 and is resolved.

MANAGEMENT COMMENTS

Finding 4. Full Forgiveness

Recommendation No. 4

We recommend that USAID/Bolivia verify the actual amount lost by the Government of Bolivia and the cause(s) for the loss, and report the results to A.I.D.'s Bureau for Food for Peace and Voluntary Assistance."

Response

The Mission rejects this specific recommendation as irrelevant...

OIG Comment

This recommendation was deleted.

MANAGEMENT COMMENTS

... since according to specific guidance received from Washington in 88 State 339785 (copy attached), shortages do not appear to exist. The cited cable states "The issue of local currency disbursements is addressed very specifically in the Agricultural Trade and Development Assistance Act of 1954 (PL 480). As it stated in Sec. 305 (A), quote, disbursements of funds from the special account in an amount equivalent to the dollar value of the credit furnished by the Commodity Credit Corporation under section 304 (A) shall be deemed to be payment of all installments of principal and interest payable thereon for the commodities purchased by the participant country for the purpose of this Title. Endquote."

OIG COMMENT

We agree that "disbursements of funds from the special account" were to equal the $90.7 million value of credit established by the CCC. However, disbursements totaled only $56.2 million equivalent.

MANAGEMENT COMMENTS

The cable continues, "In order to have full forgiveness, all disbursements must be accounted for as being spent for eligible uses. The amount of local currency disbursements required is equal to the minimum account of local currency to be deposited, i.e. equivalent to CCC credit disbursements as calculated on the day(s) of the CCC credit disbursement(s)."

Since the amount to be deposited into the special account is based on exchange rates in effect on the days of CCC disbursements, the GOB was required to deposit a total of pesos 28 billion into the special account (Mission controllers figures). Since the GOB actually deposited pesos 44 trillion and disbursed these funds to eligible projects, the GOB qualifies for full forgiveness. Thus currency depreciation is avoided when full forgiveness is achieved, and there is no shortfall to be forgiven. As a result, recommendation No. 4 is not valid since there are actually no resulting losses, or shortages.

There was a previous shortfall due to the GOB's lack of deposits into the account. However, recent payments made as per repayment schedules have resulted in the GOB paying all obligations due under the 1978 program. Since all deposits to the account have been made, and the required amount of local currency deposited and disbursed to eligible projects, full forgiveness if justified.

OIG COMMENT

The criterion contained in the cited cable is not applicable to Bolivia's 1978 PL 480 Title III program since the PL 480 agreement requires the Government of Bolivia to use the highest legal exchange rates in existence on the dates that the disbursements are made. Therefore, there is a $34.5 million equivalent shortage.

MANAGEMENT COMMENTS

The Mission has already communicated these figures to the DCC in 88 LAPAZ 16027 (copy attached), and based on these amounts plus the guidance included in the cable cited above, has requested full forgiveness under the 1978 Title III Program and closeout of the same.

Given Washington's determination in the cited cable, and the fact that the 1978 Title III program meets the forgiveness requirements cited in said cable, the Mission recommends that the entire recommendation and discussion not be included in the final report.

OIG COMMENT

We do not agree that the 1978 PL 480 Title III program has met forgiveness requirements.

MANAGEMENT COMMENTS

Recommendation No. 5

"We recommend that A.I.D.'s Bureau for Food for Peace and Voluntary Assistance not make a recommendation to fully forgive $90.6 million until USAID/Bolivia has verified the cause(s) for Government of Bolivia losses of local currency under the 1978 Public Law Title III Special Account and the Bureau has reviewed the five-year repayment plan that has been proposed by the Government of Bolivia. This review should include direct consultations on the forgiveness issue with all Federal agencies responsible for administering the Public Law 480 Program."

Response

Since this recommendation is directed to AID Washington's Food for Peace Bureau, USAID/Bolivia cannot take direct responsibility for the response. However, the Mission must take exception to the reference regarding a GOB proposed five-year repayment plan.

The auditors state that the Bureau has reviewed the five year repayment plan that has been proposed by the GOB. To our knowledge, the Bureau never reviewed this plan because it was never formally presented by the GOB, nor was the official GOB representative ever consulted by the auditors on this issue, that is, the auditors never consulted with the Joint Commission for Rural Development (JCRD), the official GOB policy body for the PL 480 Program, regarding this issue.

OIG COMMENT

This is now recommendation No. 3 which has been modified to read that the Bureau take no action to forgive until Bolivia disburses $34.5 million equivalent. For the record, there was no statement in the report that the Bureau had already reviewed the five-year repayment plan.

MANAGEMENT COMMENTS

The JCRD speaks for the GOB on all relevant policy issues regarding the PL 480 Program and the Executive Secretariat falls under the purview of the JCRD. It appears that the five year plan referred to by the auditors was only suggested by the Executive Secretariat as an alternative. In fact, the Mission has received correspondence from the president of the JCRD, the Sub-Secretary of Finance, requesting full forgiveness, making no reference at all to any five year repayment plan.

The proposal by the ES was based on institutional self-interest. The ES is interested in having the maximum amount of money enter its special account, and believes that if reflows were not used to make up the alleged shortfall, they would lose control of the use of those reflows. The ES specifically fears that since the reflows belong to the GOB, the GOB might decide to earmark them for projects outside the purview and control of the ES. The ES would thereby lose potential funds and power, and was thus reluctant to seek forgiveness. On this issue the ES' position was directly counter to that of the GOB. The analysis presented by the ES is also optimistic. Since the five-year plan is based on estimates of income from reflows, repayment of a myriad of credit programs must run smoothly. However, due to drought and other economic problems, some private debt may be rescheduled, resulting in a more limited amount of reflows entering the Special Account. And even though the ES feels that such forgiveness would set a bad precedent, this view is not universally shared. In fact, the GOB regards this debt a special burden, and its relief would be beneficial.

Thus, given the tremendous economic difficulty it faces, the GOB is very interested in closing out the 1978 Program. In addition, the use of reflows to pay off outstanding PL 480 debt will avoid signing delays which arise from GOB non-compliance with repayment schedules.

The Mission's conclusion is that granting full forgiveness is a fully justified and warranted action. Full forgiveness would permit the Mission to close out the Program and relieve both the ES and USAID/Bolivia of the administrative burden resulting from continued management of the Program. Any alleged shortfalls that may have appeared to exist were undoubtedly due to the unprecedented rate of inflation (annualized 25,000 per cent) which hampered the Bolivian economy during the implementation of the Program. The significance of hyperinflation cannot be dismissed, and should weigh heavily in a favorable decision to grant full forgiveness. As mentioned earlier, under the Program the GOB was required to deposit 28 million pesos, but deposited 44 trillion pesos which were disbursed to projects. Such an exaggerated difference indicates the extreme economic circumstances the GOB faced at the time.

OIG COMMENT

The 1978 PL 480 Title III program should not be forgiven until another $34.5 million equivalent has been disbursed from the special account.

MANAGEMENT COMMENTS

Finding 5. Questionable Lending Practices and Ineffective Controls

Recommendation No. 6

"We recommend that USAID/Bolivia:

a) notify the Government of Bolivia that interprogram loans cannot be made from the three Public Law 480 special accounts, and existing loans represent delinquent deposits or arrearages, and

b) reconstruct and reconcile the universe of local currency loans that have been made between the Public Law Title I, II and III Programs, and loans made by the Government of Bolivia's Executive Secretariat to intermediate credit institutions. The Government of Bolivia's Executive Secretariat and Project Coordination and Control Unit should establish loans receivables accounts, formally reconstruct the record of loans executed and repayments received, and adjust credits made against the value of Public Law 480 financed wheat shipments to Bolivia."

Response

Mission is unable to verify the basis for the recommendation that interprogram loans cannot be made from the PL 480 special accounts. We have not been able to substantiate the auditors' position either in the legislation or in PL 480 program guidance documentation. We would also like to correct the erroneous point that interprogram loans were made from the Title II Program. Interprogram loans were made only between the Title I and Title III Programs, and between Title III Programs.

OIG COMMENT

This is now finding No. 4 and recommendation No. 4. To reiterate, the absence of legislation or program guidance on interprogram loans does not condone their execution. Also, the report did not point out that interprogram loans were made from the Title II program. The audit identified $2.6 million equivalent in loans made to the Title II program. USAID/Bolivia may wish to review its PILs No. 26, 28, 35, 40, 41, 42 and 43 for evidence of its authorization to make the loans for Title II activities. Part a. of the recommendation is unresolved. Part b. is resolved and may be closed when the interprogram loan portfolio has been reconstructed and reconciled.

MANAGEMENT COMMENTS

Mission takes exception to the recommendation regarding advice to the ES that existing loans represent delinquent deposits. The Mission must first verify the status of all loans and repayments and determine existing problems before advising the ES of any delinquencies. According to the ES there are presently no existing loans. With renewed liquidity all funds have been returned to the proper account for disbursement to approved projects. The Mission Controller's Office will verify this and advise the ES accordingly. Presently, the ES is not suffering from liquidity problems, the main reason why inter-program loans were originally executed. As a result, no new inter-program loans are either contemplated or necessary. Clearly, the best approach is to track the loans and their repayment to ensure that all funds have been used for agreed upon purposes.

OIG COMMENT

The Executive Secretariat should be put on notice that interprogram loans are questionable.

MANAGEMENT COMMENTS

The Executive Secretariat, with the management structure initiated by Price Waterhouse, will soon have the capacity to exert greater control over loans to intermediate credit institutions. Mechanisms will consist of better computer tracking and improved supervision. This control will allow the ES to better account for funds disbursed under its credit program and will insure that loans receivable accounts are established as a means of recording and control.

USAID/Bolivia strongly supports the development of improved management capability of the ES to ensure adequate monitoring of funds. In the meantime, the $2.9 million figures cited on page 33 will be verified and analyzed by the Controller's Office. A firm will be hired to formally reconstruct the records of loans executed and payments received by the ES.

OIG COMMENT

We fully support USAID/Bolivia's efforts to improve the management capability of the Executive Secretariat.

MANAGEMENT COMMENTS

Finding 6. The Administrative Controls Established by the Executive Secretariat and the Project Coordination and Control Unit Were Unsatisfactory

Recommendation 7

"We recommend that USAID/Bolivia obtain evidence that the Executive Secretariat and the Project Coordination and Control Unit have implemented acceptable administrative controls."

Response

The Price Waterhouse Management Team working in Bolivia will restructure the Secretariat to permit better management. Under the restructuring, the UCCP will be fused into the Secretariat and will have an internal audit function. In fact, under the present scenario, the UCCP disappears and a new internal audit department is created within the ES. This will eliminate duplication of effort and make the management system more efficient.

The restructuring will include improved personnel management, including job descriptions and personnel manuals, improved project tracking and supervision, and improved financial management. This last item includes the development of a solid accounting system for the ES and the creation of the Internal Audit Division. All responsibilities, functions and authority will be delineated within the new structure.

OIG COMMENT

This is now incorporated as finding No. 5 and recommendation No. 5. The recommendation is resolved.

MANAGEMENT COMMENTS

USAID/Bolivia is and has been aware of the organizational weaknesses of the entities involved in the management of the Program, and has taken steps necessary to correct the deficiencies. The present work of Price Waterhouse will conclude in March, at which time the new system will begin to operate. When the audit began, the Mission had already recognized this problem and had initiated actions which subsequently resulted in the arrival of the Price Waterhouse team. The report should reflect these facts. As the report is currently written, it gives the impression that the auditors "discovered" the problem, when in fact, the Mission advised the auditors of these deficiencies and the steps were already taking to resolved them.

OIG COMMENT

The audit pinpoints problem areas in administrative controls.

MANAGEMENT COMMENTS

Finally, the Mission takes exception to the point that the Executive Secretariat's legal status is unclear. According to an analysis by Price Waterhouse, the ES is legally established

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by an international convention which is a sufficient legal status under Bolivian Law. Bolivian Law requires no other statutory recognition for the ES to carry out its prescribed duties, and this status does not impede its efforts to recuperate funds or carry out its business. Thus, the statement on page 38 under organization is not valid and should be omitted from the audit.

OIG COMMENT

Notwithstanding the accounting firm's analysis subsequent to this audit, the attorney retained by USAID/Bolivia said that the Executive Secretariat's legal status was not clear.

MANAGEMENT COMMENTS

Finding 7. Financial Reviews of Local Currency Projects Could be Improved

Recommendation No. 8

"We recommend that USAID/Bolivia:

a) request the Government of Bolivia's Executive Secretariat and Project Coordination and Control Unit to establish and disseminate, to Public Law 480 local currency program recipients, a system of property accountability,

b) request the Government of Bolivia's Executive Secretariat and Project Coordination and Control Unit to develop and disseminate, to participating intermediate credit institutions, criteria establishing occupation categories, income ceilings and net worth limitations for recipients of Public Law 480-financed loans,

c) have the Government of Bolivia's Executive Secretariat collect $817,000 equivalent in interest, and recover $1.3 million equivalent in unused funds from intermediate credit institutions identified in the June 1, 1988 Telleria Ormachea and Troche financial review, and...

OIG COMMENT

This section is now finding No. 7 and recommendation No. 7. Part c. of the recommendation is now part c. of recommendation No. 4.

MANAGEMENT COMMENTS

...d) have the Government of Bolivia's Executive Secretariat account for equipment, and recover 12 of 13 vehicles purchased for the Plant Sanitation Project. This includes 1 vehicle that was being used for personal purposes by an employee."

Response

The Executive Secretariat currently requires a property inventory or all equipment purchased by executing entities. This includes the presentation of receipts for expenditures of purchased equipment. These controls have become tighter. In addition, the Mission will request that Price Waterhouse examine inventory control to ensure that property accountability is adequate. Even though cases of property non-accountability may have existed in the past, efforts have been undertaken over the past two years to improve all controls. Mission discussions with the ES revealed that the auditors, upon discovering an anomaly, did not take the effort to discuss these findings and discover the type of controls that were in place. USAID/Bolivia believes this to be a serious omission, since there do exist many of the controls recommended by the auditors. However, Mission is taking measures to insure that project accountability is accurate.

OIG COMMENT

The so-described anomaly existed for 1 of 5 activities actually reviewed, or 20 percent of the audit sample. For the more than 250 activities, more than 50 anomalies could exist. USAID/Bolivia is encouraged to provide us with the Executive Secretariat's instruction for its system of property accountability in order to resolve part a. of recommendation No. 7.

MANAGEMENT COMMENTS

All major PL 480 credit programs have established regulations under which they operate. The major exception to this rule has been the Trust Fund Program. Of the various credit lines operated by the Secretariat, the issues raised on pages 44 and 45 regarding loans to affluent persons occurred under the Trust Fund Program. Thus, such incidences are the exception rather than the rule.

OIG COMMENT

The "Trust Fund Program" is normally used to describe those activities managed by USAIDs in support of their local currency requirements. The Trust Fund program discussed here refers to funds lent to intermediate credit institutions, who in turn make subloans to eligible beneficiaries. The latter program covered about 50 percent of the more

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than 250 activities. USAID/Bolivia has stated, above, that the Trust Fund program does not have established regulations under which to operate. This fact, coupled with the failure to make adequate financial reviews, raises question as to the logic used by USAID/Bolivia to conclude that loans to affluent persons were the exception rather than the rule.

MANAGEMENT COMMENTS

> The ES and USAID/Bolivia have recognized that the terms of the Trust Fund Program are too flexible, and that this flexibility allows certain banks to take advantage of the system, as has been noted by the auditors in their discussion. In addition, the ES did not adequately supervise the Program. Only one person was in charge of this multi-million dollar program and was completely unable to cope with the work load.

OIG COMMENT

We fully concur with the USAID/Bolivia observation.

MANAGEMENT COMMENTS

> In January the ES will be presenting to USAID/Bolivia for approval new regulations which will regulate banks' use of trust funds, and their participation in the Program. The norms will be such that if loans made to borrowers do not meet the necessary criteria, the Secretariat will force the Bank to recall the loan. The second time such a loan is made, the bank will be charged a fine, and if it occurs a third time the bank will be suspended from the Program.

OIG COMMENT

Effective implementation of the above-described plans may resolve part b. of the recommendation.

MANAGEMENT COMMENTS

> The ES will be supervising the Program more closely. The control system is now computerized, and four people rather than one are working on the program. Thus the abnormalities uncovered by Telleria and RIG auditors are being corrected, and much tighter controls will be introduced. Discussions with the ES would have revealed this information to the auditors.

OIG COMMENT

We support USAID/Bolivia's description of efforts to correct these abnormalities.

MANAGEMENT COMMENTS

The ES is presently attempting to recover unused funds and some interest that was generated when funds were held in interest earning accounts by the Banks. The recommendation of the auditors is valid in that these funds should be recuperated.

OIG COMMENT

The recommendation now appears as part c. of recommendation No. 4, and is resolved.

MANAGEMENT COMMENTS

Unfortunately, the majority of the funds are in two banks, the Bank of Oruro and the Bank of Potosi. Both have been closed by the Superintendent of Banks, and the ES is attempting to recuperate all of its funds from them. USAID and the ES have recently met with the Superintendent, and the situation is currently being resolved.

The unused funds and interest not in the two banks just mentioned have been re-capitalized into the banks and can be loaned. In this way the ES has "recovered the funds." If the funds are not lent within 30 days, they will revert to the ES.

In general, the ES is interested in carrying out an audit/evaluation of its credit programs to obtain information on the improvements that are required for them to operate more efficiently. The study could be completed during 1989.

The Mission will communicate the concerns of the auditors to the ES regarding the vehicles assigned to the Plant Sanitation Project. The ES will then communicate to the Minister of Agriculture that either the use of the vehicles be regulated or that they be returned. Maximum pressure will be brought to bear, but the ES may not have the power to force the Ministry to respond. A more realistic approach, and one which the Mission strongly suggests, would be to recommend a regularization of vehicle use or a transfer to another project supported by the Ministry which receives funds from PL 480. In this way, both the ES and the Mission would have the power to realistically comply with the audit recommendations.

OIG COMMENT

USAID/Bolivia has recognized a potential need to regularize vehicle use and is in a more favorable position to evaluate and implement a standard policy for all vehicles financed by the local currency program. The

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audit verified unaccountability for, or misuse of, 12 of 13 vehicles for one project and recommends that they be recovered. Part c. of recommendation No. 6 (formerly part d. of recommendation No. 7) is resolved based on USAID/Bolivia's description of measures to be taken to recover the vehicles.

MANAGEMENT COMMENT

Finding 8. Publicity of Public Law 480 Titles I and II Local Currency Projects Needed to be Considered

Recommendation No. 9

"We recommend that A.I.D.'s Bureau for Food for Peace and Voluntary Assistance establish policy regarding advertising and publicity for Public Law 480 Titles I and III local currency programs."

OIG COMMENT

This is now finding No. 7 and recommendation No. 7.

MANAGEMENT COMMENT

Response

Since this recommendation is directed to AID/Washington, Mission comments will be limited to a brief discussion of the issue. Even though the sample is very small and no real conclusions can be extrapolated, the Mission is aware that certain beneficiaries may not be aware of USAID financing, even though, ironically, the Joint Commission feels that beneficiaries believe that the project is only identified with USAID and not the GOB.

Whenever feasible USAID/B personnel attend inaugurations to promote AID involvement. Dedicatory plaques at project sites carry AID's name, as do some of the water tanks in San Julian. The lack of awareness of AID's participation may not be as serious, therefore, as the auditors point out.

At present, the Mission is committed to increasing publicity and increasing awareness of the role of AID in the country, including project financing through the local currency program. USAID/Bolivia efforts in the areas should begin to bear fruit and result in greater knowledge among beneficiaries of the US role in projects funded through PL 480.

OIG COMMENT

We support USAID/Bolivia's efforts to publicize A.I.D.'s role in Bolivia.

MANAGEMENT COMMENT

B. Compliance and Internal Control

1. Compliance

On page 57 the report states that "the relevant agreements required the Government of Bolivia to deposit local currency in the special accounts at the highest legal exchange rate." According to guidance from Washington the sentence should end with the phrase, "in effect on the date(s) of disbursement(s) by the CCC." This statement should thus be modified to reflect this additional requirement.

OIG COMMENT

This passage has been revised to read "...at the rate in which Bolivia's Central Bank sells foreign exchange for local currency." The guidance from Washington is not applicable since it was not incorporated into the agreement.

MANAGEMENT COMMENTS

2. Internal Control

On page 58, Mission disagrees with the phrase "weaknesses in control over exchange rates." According to the legislation, these control weaknesses did not exist since the GOB did use the highest rates of exchange on the dates of CCC disbursements.

OIG COMMENT

The agreement, not the legislation, dictates what exchange rates are to be used, and what point in time.

MANAGEMENT COMMENTS

C. Other Pertinent Matters

Regarding the issues of not properly withholding income taxes, USAID/Bolivia advised both the ES and the UCCP that all legitimate taxes must be paid.

As of this writing the ES has paid the income taxes that should have been withheld in April and May 1987 to the Bolivian tax authority.

The UCCP is also in compliance, having repaid all its back taxes.

OIG COMMENT

We applaud USAID/Bolivia efforts to ensure that the executing entities are in compliance with Bolivian law.

ACTION: AID-2 INFO: ECON CML/4

APPENDIX 2
Page 1 of 3

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AIDAC FROM AA/FVA, PHIL CHRISTENSON

E.O. 12356: N/A
TAGS:
SUBJECT: DRAFT REPORT ON THE AUDIT OF ACCOUNTABILITY FOR LOCAL CURRENCY IN BOLIVIA (RECOMMENDATION NOS. 5 AND 9)

TEGUCIGALPA FOR RIG/A/T:GOTHARD, LA PAZ FOR USAID MISSION DIRECTOR

REFERENCE: RIG/A/T, C.N.GOTHARD MEMORANDUM OF 12/6/88 TO A/AA/FVA, OWEN CYLKE, RE SUBJECT DRAFT AUDIT REPORT, RECOMMENDATION NOS. 5 AND 9

1. IN RESPONSE TO REFERENCED MEMORANDUM, THE FOLLOWING PROVIDES COMMENTS ON THE SUBJECT DRAFT REPORT - RECOMMENDATION NOS. 5 AND 9:

A. RECOMMENDATION NO. 5: QUOTE WE RECOMMEND THAT A.I.D.'S BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE NOT MAKE A RECOMMENDATION TO FULLY FORGIVE DOLS 97.6 MILLION UNTIL USAID/BOLIVIA HAS VERIFIED THE CAUSE(S) FOR GOVERNMENT OF BOLIVIA LOSSES OF LOCAL CURRENCY UNDER THE 1978 PUBLIC LAW TITLE III SPECIAL ACCOUNT AND THE BUREAU HAS REVIEWED THE FIVE-YEAR REPAYMENT PLAN THAT HAS BEEN PROPOSED BY THE GOVERNMENT OF BOLIVIA. THIS REVIEW SHOULD INCLUDE DIRECT CONSULTATIONS ON THE FORGIVENESS ISSUE WITH ALL FEDERAL AGENCIES RESPONSIBLE FOR ADMINISTERING THE PUBLIC LAW 480 PROGRAM UNQUOTE.

COMMENT: A.I.D./W DOES NOT AGREE WITH RECOMMENDATION NO. 5 AND REQUESTS THAT IT BE WITHDRAWN THE RECOMMENDATION HINGES ON A SINGLE POINT OF LEGAL ANALYSIS, UPON WHICH A.I.D., USDA, OMB, STATE AND TREASURY HAVE EXPLICITLY FOCUSED AND HAVE TAKEN THE VIEW OPPOSITE TO THE INSPECTOR GENERAL. IN THIS REGARD, THE FOLLOWING PROGRAM GUIDANCE IS PROVIDED AS SET FORTH IN STATE 225299, 14 JULY 1988, PARAGRAPH 4.D(2)(B), QUOTE DEPOSITS INTO SPECIAL ACCOUNT UNQUOTE, QUOTE THE MINIMUM AMOUNT OF L/C REQUIRED TO BE DEPOSITED INTO THE SPECIAL ACCOUNT IN ORDER TO OBTAIN FULL OFFSET FOR THE

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UNDERLYING REPAYMENTS OBLIGATIONS IS DETERMINED BY MULTIPLYING THE FOREIGN EXCHANGE RATE IN EFFECT ON THE DATE OF EACH REPEAT EACH CCC DOLLAR DISBURSEMENT BY THE DOLLAR AMOUNT OF EACH CCC DISBURSEMENT UNQUOTE.

THE LEGAL QUESTION IS WHETHER TITLE III PERMITS USE OF A CERTAIN DATE (DATE OF DISBURSEMENT BY CCC5 AS THE DATE WHICH DETERMINES (BASED ON THAT DAY'S FOREIGN EXCHANGE RATE) WHAT AMOUNT OF LOCAL CURRENCY MUST BE DISBURSED FROM THE SPECIAL ACCOUNT (FOR ELIGIBLE PURPOSES) TO QUALIFY FOR FULL FORGIVENESS. (SEE LAST SENTENCE OF SECTION 305(A) OF P' L. 480). IT IS THE COMBINED VIEW OF THE AGENCIES LISTED ABOVE THAT USE OF THE DATE OF CCC DISBURSEMENT IS NOT ONLY PERMISSIBLE BUT APPROPRIATE.

THE IG REPORT APPEARS TO BELIEVE THAT THE STATUTE REQUIRES USE OF THE DATE OF DEPOSIT OF LOCAL CURRENCY INTO THE SPECIAL ACCOUNT. IT IS PROBABLY NOTEWORTHY -- APART FROM OTHER INDICATIONS IN THE LEGISLATIVE HISTORY -- THAT, WHEN THIS LAST SENTENCE OF SECTION 305(A) WAS ENACTED IN 1979 THE CONFERENCE COMMITTEE DELETED THE EXPRESSION QUOTE AS OF THE DATE OF THEIR ORIGINAL DEPOSIT UNQUOTE WHICH HAD BEEN INSERTED BY THE HOUSE FOREIGN AFFAIRS COMMITTEE FOLLOWING THE EXPRESSION IN THIS SENTENCE QUOTE IN AN AMOUNT EQUIVALENT UNQUOTE.

THE CONGRESS HAS MADE CLEAR THAT, AS AN INCENTIVE TO FULLY PARTICIPATE IN A TITLE III PROGRAM, INFLATION WHICH OCCURS IN THE COURSE OF A TITLE III PROGRAM CAN BE OVERCOME WHEN FULL FORGIVENESS IS REACHED: MAINTENANCE OF VALUE IS NOT REQUIRED. NEVERTHELESS, IN THE BOLIVIAN

CONTEXT, VARIOUS STEPS TO COMPENSATE FOR AT LEAST SOME OF THE EFFECTS OF INFLATION WERE TAKEN BY MUTUAL AGREEMENT. THIS IS REFLECTED IN THE GROSS FIGURES OF APPROXIMATELY DOLS 90 MILLION CCC DISBURSEMENT, WITH GOB DEPOSITS OF 44 TRILLION PESOS.

B. RECOMMENDATION NO. 9: WE RECOMMEND THAT A.I.D''S BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE ESTABLISH POLICY REGARDING ADVERTISING AND PUBLICITY FOR PUBLIC LAW 480, TITLES I AND III LOCAL CURRENCY PROGRAMS

COMMENT: THE REQUIREMENT FOR PUBLICITY IS IN SECTION 103(1) OF P.L. 480. THIS REQUIRES THAT THE U.S GOVERNMENT QUOTE OBTAIN COMMITMENTS FROM PURCHASING COUNTRIES TO PUBLICIZE WIDELY TO THEIR PEOPLE, BY PUBLIC MEDIA AND OTHER MEANS, THAT THE COMMODITIES ARE BEING PROVIDED ON A CONCESSIONAL BASIS THROUGH THE FRIENDSHIP OF THE AMERICAN PEOPLE AS FOOD FOR PEACE UNQUOTE.

TO IMPLEMENT THIS LEGISLATION, EVERY P.L. 480, TITLE I OR
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TITLE III AGREEMENT INCLUDES THE FOLLOWING PROVISION IN PART I, ARTICLE III, SECTION I OF THE AGREEMENT: QUOTE HE GOVERNMENT OF THE IMPORTING COUNTRY SHALL UNDERTAKE SUCH MEASURES AS MAY BE MUTUALLY AGREED PRIOR TO DELIVERY FOR THE IDENTIFICATION OF FOOD COMMODITIES AT POINTS OF DISTRIBUTION IN THE IMPORTING COUNTRY, AND FOR PUBLICITY IN THE SAME MANNER AS PROVIDED FOR IN SUBSECTION 103(1) OF THE ACT UNQUOTE. FURTHER, GUIDANCE TO THE FIELD (AIDTO CIRCULAR A-487 OF JULY 6, 1974, WHICH IS STILL ACTIVE GUIDANCE) ON THIS MATTER STATES THAT QUOTE TO AVOID MISUNDERSTANDINGS AND POSSIBLE DELAYS IN ISSUANCE OF PURCHASE AUTHORIZATIONS, USAID MISSIONS ARE REQUESTED TO NEGOTIATE THESE POINTS WITH THE FOREIGN GOVERNMENT AND, UNLESS OTHERWISE AUTHORIZED, CONCLUDE ARRANGEMENTS PRIOR TO SIGNING OF THE AGREEMENT. USAID MISSIONS ARE ALSO REQUESTED TO ADVISE A.I.D./WASHINGTON IMMEDIATELY FOLLOWING CONCLUSION OF ARRANGEMENTS ON THE PROCEDURE TO BE USED IN CARRYING OUT THIS PROVISION OF THE LAW ARRANGEMENTS MADE WITH THE FOREIGN GOVERNMENT SHOULD INCLUDE PROVISION FOR PERIODIC REPORTS ON MEASURES IT HAS TAKEN TO IMPLEMENT THESE REQUIREMENTS UNQUOTE. IN ADDITION, A:I:D. HANDBOOK 9 TO BE REISSUED SHORTLY, WILL CONTAIN IN CHAPTERS 4 AND 5, WHICH PERTAINS TO TITLES I AND III ACTIVITIES, WILL CONTAIN MATERIAL REFLECTING THIS REQUIREMENT.

WE WILL CONTINUE TO REQUIRE THAT IN ALL P.L. 480, TITLE AND III NEGOTIATIONS THIS LEGISLATIVE MANDATE BE

INCLUDED IN THE BASIC NEGOTIATING INSTRUCTIONS AND AGREEMENTS. ALSO, THAT COMMITMENTS BE OBTAINED FROM PURCHASING COUNTRIES THAT WILL INSURE INSOFAR AS PRACTICABLE THAT FOOD COMMODITIES ARE MARKED OR IDENTIFIED AT POINT OF DISTRIBUTION OR SALE AS BEING PROVIDED ON A CONCESSIONAL BASIS TO THE RECIPIENT GOVERNMENT THROUGH THE GENEROSITY OF THE PEOPLE OF THE UNITED STATES IN ADDITION, COMMITMENTS MUST BE OBTAINED FROM PURCHASING COUNTRIES TO PUBLICIZE WIDELY TO THEIR PEOPLE BY PUBLIC MEDIA AND OTHER MEANS, THAT THE COMMODITIES ARE BEING PROVIDED ON A CONCESSIONAL BASIS THROUGH THE FRIENDSHIP OF THE AMERICAN PEOPLE.

WHILE THE ABOVE REQUIREMENT IS INCLUDED ALL PL 480, TITLES I AND III AGREEMENTS INCLUDING BOLIVIA, IT APPEARS THAT THE AUDIT MAKES A VALID POINT IN SUGGESTING THAT USAIDS AND EMBASSIES SHOULD BE REMINDED OF THE NEED TO ADDRESS THIS REQUIREMENT IN MUTUAL AGREEMENT WITH THE HOST COUNTRY AS SET FORTH IN THE AGREEMENT. IT IS RECOGNIZED, HOWEVER, THAT LOCAL DECISIONS WILL HAVE TO BE MADE TO ADAPT TO LOCAL SITUATIONS. BAKER

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AUDIT
OF ACCOUNTABILITY FOR
LOCAL CURRENCY IN BOLIVIA

Examples of Major Documents Not Cleared by USAID/Bolivia's Controller

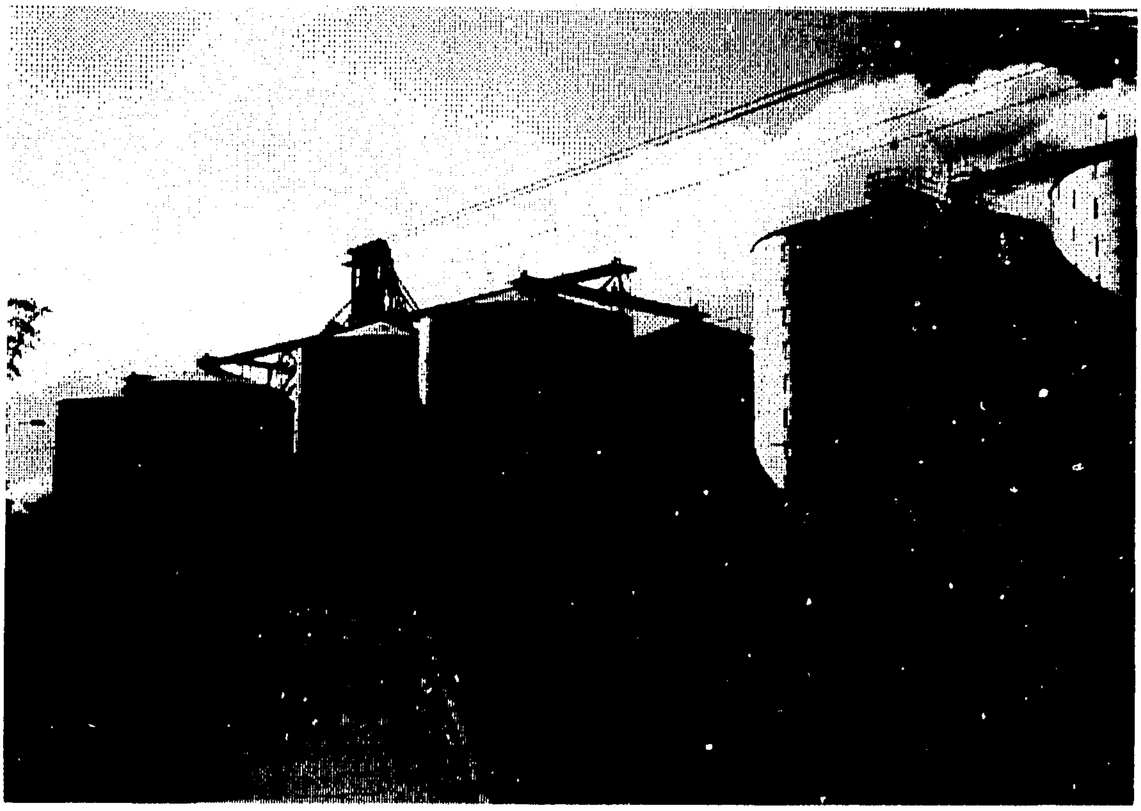
1. An August 25, 1987 memorandum from a program contractor to the USAID/Bolivia Director informed him that losses due to exchange rate fluctuations under the 1978 PL 480 Title III program totaled $31.5 million. This memorandum had not been cleared by the controller, nor had it been seen by the financial contractors until our audit. At the time, Executive Secretariat reporting indicated that there was a $37.2 million loss. (This figure, too, was not verified.)

2. An October 22, 1987 memorandum from a program contractor to the USAID/Bolivia Director informed him that losses under the 1978 PL 480 Title III program totaled $34.6 million. The financial contractors pointed out that unverified Executive Secretariat reporting showed that there was a $37.5 million loss in October 1987.

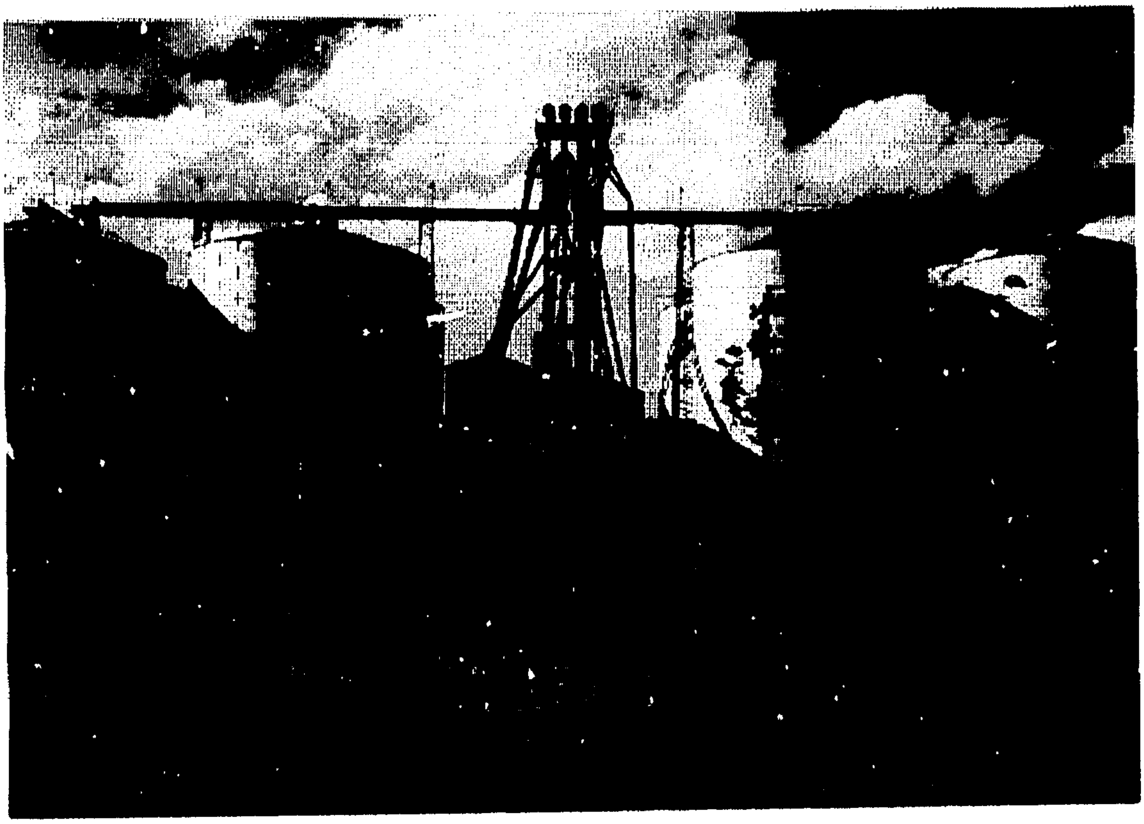
3. On May 27, 1988, USAID/Bolivia sent a cable to the A.I.D./Washington Food for Peace representative claiming that approximately $32 million in shortfalls existed. There was no evidence that the cable had been cleared by the controller nor reviewed by his financial experts. In fact, the loss had never been verified by USAID/Bolivia.

4. USAID/Bolivia was about to execute the 1988 Amendment to the 1986 PL 480 Title III Program with a potential $5.3 million equivalent arrearage error therein. USAID/Bolivia had stipulated that the host government was to repay $10 million in arrearages in 10 equal installments representing accumulated debt under the PL 480 Titles I and III programs. The draft amendment had not been cleared by the controller nor had fiscal data been analyzed by his PL 480 contractors. The actual arrearage, verified through audit, could exceed $15 million (see Finding No. 2).

AUDIT OF ACCOUNTABILITY
FOR LOCAL CURRENCY IN BOLIVIA



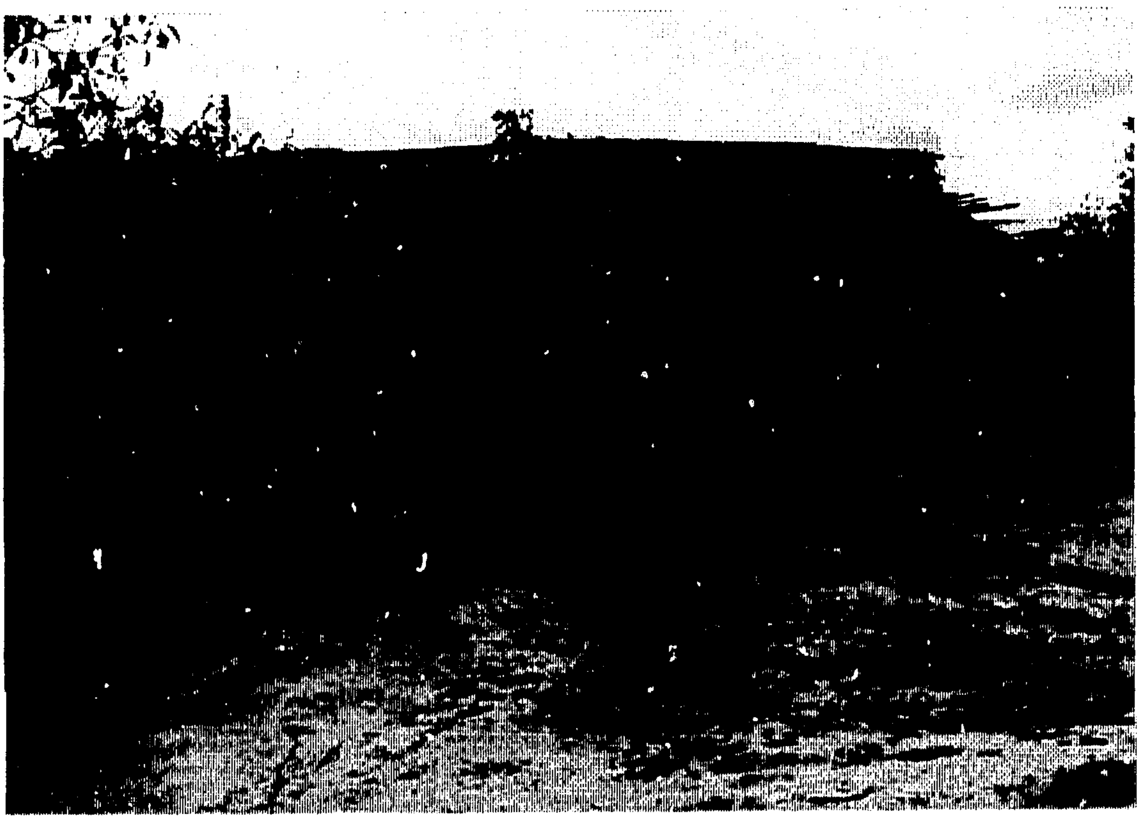
These silos were used by Santa Cruz small rice farmers



Due to funding delays, ACAF only financed and marketed 19% of it's 1988 production target.

Although pleased with the project, beneficiaries were unaware of the U.S. Government's sponsorship and funding assistance for this project.

The San Julian Water Project was appropriately targeted to Bolivia's rural poor.



The San Julian Water Project needed more income producing activities.

Historical Account of Delinquent GOB Deposits to the PL 480 Title I/III Programs

Date	Correspondence	Subject	Remarks
January 13, 1981	Mission Cable to Washington, D.C.	PL-480 Title III Delinquent Deposits to Special Account	GOB Joint Commission for Rural Development agreed to find ways to make additional deposits to the special account.
January 28, 1987	Executive Secretariat Letter to USAID/Bolivia's Mission Director	PL-480 Title III Arrearages and Devaluation of Special Account	Executive Secretariat reported to USAID/Bolivia's Mission Director on GOB arrearages of more than $5.4 million to the Commodity Credit Cooperation and the Title III 1978 Program. Executive Secretariat requested that reflows from the PL-480 credit program be used to pay past due arrearages.
July 21, 1987	ARD Memorandum to USAID/Bolivia Mission Director	Liquidity Problem Involving the PL-480 Title I Special Account (Mission Director's Meeting with GOB's Finance Minister)	GOB did not deposit the remaining balance of its $6.4 million arrearage to the PL-480 Title I Special Account. The memorandum noted that GOB's last deposit to the special account was on August 5, 1986 for "only $13,649". The GOB's Minister of Finance had assured the Mission that the remaining $6.5 million would be deposited by the end of 1986. The promised GOB deposit was never made, however, and ARD noted that GOB's lack of deposits had stalled the program.
August 25, 1987	ARD Memorandum to USAID/Bolivia Mission Director	Mission Decision Related to PL-480 1978 Program's Outstanding Debt	The ARD Office recommended the issuance of a Mission decision and/or policy to authorize the GOB to use reflows from PL-480 program credit lines to make up the reported $31.5 in disbursement shortfalls so that the agreement's currency use offset requirement could be fullfilled. The ARD office stated that the reported $3.5 million in GOB arrearages to the 1978 Title III Program would likely be deposited by the GOB as it was promised by the Minister of Finance.
September 18, 1987	ARD Memorandum to USAID/ Bolivia's Deputy Director	Outstanding GOB Deposits to the PL-480 Title I/III Special Account	The memorandum noted that despite the Minister of Finance's verbal assurance that regular deposits would be made to the special account, no deposits had been made since July 1987. As a result, the liquidity problem for the Title I/III programs had became increasingly worse.
October 13, 1987	USAID/Bolivia Mission Director's Letter to GOB's Minister of Finance	Status of GOB Arrearages	GOB arrearages of $3.5 million to the Title III 1978 Program and $6.4 million to the Title I 1985 Program were discussed. The letter noted that the Minister of Finance did not adhere to its May 26, 1986 commitment to make monthly deposits to the programs' special accounts until all past arrearages were cancelled.
November 19, 1987	Aide Memoire	USAID/Bolivia Mission Director's Meeting with the GOB's Minister of Finance	GOB arrearages to all the active PL-480 programs were discussed (i.e. $3.5 million to the 1978 Title III Program, $6.4 to the 1985 Title I Program and $2.2 million to the 1986 Title III Program). The GOB's Minister of Finance would have to propose a schedule of deposits of $1.0 million monthly that would begin January 1988.

Date	Correspondence	Subject	Remarks
November 25, 1987	Deputy Mission Director's Letter to GOB's Minister of Finance	Commitments Made During Mission's Director Meeting with GOB's Minister of Finance on November 23, 1987	Reference was made to the initiation of deposits beginning in January 1988 and continuing during the year until all delinquencies were paid.
November 27, 1987	Acting Mission Director's Letter to Ministry of Industry, Commerce and Tourism (MICT)	Delinquent Payments to GOB's Treasury Department	The letter stated that as of November 27, 1987 the Association of Industrial Millers had received wheat valued at $8,000,000, but had failed to make one deposit to GOB's Treasury Department.
December 1, 1987	Acting Mission Director's Letter to American Ambassador to Bolivia	Meeting with GOB's Minister of Finance about PL-480 Matters	The letter informed the Ambassador that GOB arrearages and delayed deposits to the PL-480 special accounts threatened not only the current program, but also any prospective FY 88 PL-480 Title III Amendment. Future delays in payments of required deposits and arrearages might make it necessary to include as a condition precedent in any future agreement, a requirement for the GOB to be entirely current in its payments to the special accounts.
December 2, 1987	Executive Secretariat's Letter the National Treasury Sub-Secretary.	Reconfirmation of Treasury Department's Repayment Schedule for Past Due Deposits and Arrearages.	Reference was made to the institution's November 27, 1987 jointly held meeting in which the GOB's Treasury Department agreed to deposit, on December 2, 1987, $500,000 into the PL-480 Title III 1978 Special Account. GOB's Treasury Department also agreed to make a deposit of $256,075.90 into the Title III 1986 Special Account during the month of January 1988. Thereafter the Treasury Department had agreed to make deposits of $1.0 million monthly until all PL-480 Title I/III past due deposits and arrearages were cancelled.
February 29, 1988	USAID/Bolivia Mission Director's Letter to GOB's Minister of Finance.	Among Othe Topics - Minister of Finance's Failure to Comply with Recently Agreed Upon Repayment Schedule.	This letter informed the Minister of Finance that the repayment schedule's January 1988 deposit had still not been made.
March 7, 1988	GOB Minister of Finance's Letter to USAID/Bolivia Mission Director.	Minister of Finance's Repayment Agreement.	Minister of Finance agreed to make deposits of $1.0 million per month until all arrearages from the three PL-480 Programs were cancelled.
March 21, 1988	ARD Letter to the Deputy Mission Director.	Recent GOB Deposits into PL-480 Account.	GOB made a March 1988 deposit of $1,250,000 to the PL-480 Special Account comprising the required January and February 1988 payments outlined in the repayment schedule

List of Report Recommendations

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Recommendation No. 1 5

We recommend that USAID/Bolivia install appropriate accounting and internal controls by:

a. obtaining evidence that the Government of Bolivia has reconstructed accounting records for the Public Law 480 and Economic Support Fund local currency programs from May 1978 through June 31, 1989 and obtaining a certification from a public accounting firm that the local currency was used for intended purposes;

b. arranging for a concurrent audit of the local currency program, by an approved certified public accounting firm, from July 1989 on;

c. periodically reviewing source documentation supporting host government financial reports and providing assistance to correct any problems found; and

d. requiring USAID/Bolivia controller review and clearance of communications that contain fiscal data pertaining to Public Law 480 Titles I and III, and Economic Support Fund local currency programs.

Recommendation No. 2 9

We recommend that USAID/Bolivia:

a. determine the selling rates on the dates that deposits were actually made into the Public Law 480 special accounts and have the Government of Bolivia make corresponding adjustments;

b. have the Government of Bolivia immediately deposit into the 1978 Public Law 480 Title III and 1985 Public Law 480 Title I special accounts $795,760 equivalent and $35,081 equivalent related to exchange rate errors, including any accrued interest; and reduce the arrearage balance owed the 1986 Public Law 480 Title III special account by an equivalent $10,972, including interest accrued. These values are based on audit review of errors made when the deposit vouchers were prepared;

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c. ensure that no new deliveries of Public Law 480 financed wheat are made to Bolivia's Ministry of Defense or National Police without the prior knowledge of responsible authorities of both the Governments of Bolivia and the United States, and that USAID/Bolivia has written assurance from responsible Bolivia authorities that funds are available and necessary transfers into the special account(s) will be made;

d. advise the Government of Bolivia that if the repayment schedule established in the draft 1988 amendment to the 1986 Public Law 480 Title III agreement is not adhered to, that termination clauses in the applicable Public Law 480 agreements will be exercised; and

e. request responsible Government of Bolivia institutions to report to USAID/Bolivia the cummulative status of delinquent deposits as well as each deposit made during a reporting period.

Recommendation No. 3 — 14

We recommend that A.I.D.'s Bureau for Food for Peace and Voluntary Assistance not make a recommendation to fully forgive the $90.7 million 1978 Public Law 480 Title III program in Bolivia until an additional $34.5 million equivalent has been disbursed from the special account for mutually agreed upon purposes.

Recommendation No. 4 — 18

We recommend that USAID/Bolivia:

a. notify the Government of Bolivia that interprogram loans cannot be made from the three Public Law 480 special accounts and that existing loans represent delinquent deposits or arrearages;

b. reconstruct and reconcile the universe of local currency loans that have been made between the Public Law 480 Titles I, II, and III programs and loans made by the Government of Bolivia's Executive Secretariat to intermediate credit institutions. The Government of Bolivia's Executive Secretariat and Project Coordination and Control Unit should establish loans receivables

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accounts, formally reconstruct the records of loans executed and repayments received, and adjust credits made against the value of Public Law 480 financed wheat shipments to Bolivia; and

c. have the Government of Bolivia's Executive Secretariat collect $817,000 equivalent in interest and recover the $1.3 million equivalent in unused funds from intermediate credit institutions identified in the June 1, 1988 Telleria Ormachea and Troche financial review.

Recommendation No. 5 21

We recommend that USAID/Bolivia obtain evidence that the Executive Secretariat and the Project Coordination and Control Unit have implemented acceptable administrative controls.

Recommendation No. 6 24

We recommend that USAID/Bolivia:

a. request the Government of Bolivia's Executive Secretariat and Project Coordination and Control Unit to establish and disseminate to Public Law 480 local currency program recipients a system of property accountability;

b. request the Government of Bolivia's Executive Secretariat and Project Coordination and Control Unit to develop and disseminate to participating intermediate credit institutions, criteria establishing occupation categories, income ceilings, and net worth limitations for recipients of Public Law 480-financed loans; and

c. have the Government of Bolivia's Executive Secretariat account for equipment and recover 12 of 13 vehicles purchased for the Plant Sanitation Project. This includes 1 vehicle that was being used for personal purposes by an employee.

Recommendation No. 7 29

We recommend that A.I.D.'s Bureau for Food for Peace and Voluntary Assistance establish and enter into the A.I.D. Handbooks policy regarding advertising and publicity for Public Law 480 Titles I and III local currency programs.

APPENDIX 7

REPORT DISTRIBUTION

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LAC/DP	1
LAC/CONT	1
LAC/GC	1
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LEG	1
FVA/FFP/LAC	2
GC	1
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