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AUDIT OF
COMMODITY IMPORT PROGRAMS
IN PAKISTAN

AUDIT REPORT NO. 5-391-90-03

OCTOBER 26, 1989

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October 26, 1989

MEMORANDUM FOR James Norris
Director, USAID/Pakistan

F. Whitney Glynn

FROM: F. Whitney Glynn, Acting RIG/A/Singapore

SUBJECT: Audit of Commodity Import Programs in Pakistan (Audit Report No. 5-391-90-03)

The Office of the Regional Inspector General for Audit/Singapore completed its audit of the Commodity Import Programs in Pakistan. Enclosed is the final report for your review and appropriate action.

Your comments to the draft report are summarized after each finding and included in their entirety as Appendix 1 to this report. The report contains 12 recommended actions. Based on your comments, Recommendations Nos. 1(a), 2(a), and 2(b) are unresolved. The remaining recommendations are resolved and will be closed upon completion of planned or promised actions. Please advise me within 30 days of the additional actions taken to implement the recommendations.

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

COMMODITY IMPORT PROGRAMS

Controls over commodities and local currency need improvements to assure compliance with legislative and A.I.D. requirements.

EXECUTIVE SUMMARY

A.I.D. funded three **Commodity Import Programs In Pakistan:** Agricultural Commodities and Equipment, Energy Commodities and Equipment, and the Agricultural Sector Support Program. A primary objective of these programs was to provide balance of payment support to the Government of Pakistan through imports of commodities from the United States. As of May 31, 1989, total obligations and expenditures under the three programs were $752 million and $597 million, respectively.

The Office of the Regional Inspector General for Audit/Singapore conducted an audit to determine whether USAID/Pakistan had reasonable assurances that local currency was deposited in special accounts and used for authorized purposes, A.I.D.-financed commodities were actually received by the Government of Pakistan in the quantity and condition for which payment was made, and commodities were properly used. The audit was conducted in accordance with generally accepted government auditing standards.

The audit disclosed that:

-- USAID/Pakistan did not ensure that about $184 million in local currency was deposited in special accounts and used for authorized purposes. This included about $44 million that was reported as paid for unallowable incidental costs. These problems occurred because USAID/Pakistan was not successful in its efforts to obtain required reports from the Government of Pakistan or to be involved in the programing of local currency (see page 5).

-- Commodities may not have been received in the quantity and condition for which payment was made. This occurred because the required reviews were not made of the Government of Pakistan's commodities arrival and disposition systems, and USAID/Pakistan did not effectively implement its established procedures (see page 18).

-- About $4.8 million of the $10.8 million in equipment reviewed was not effectively utilized. This occurred because necessary information was not available to monitor equipment utilization and actions taken to resolve identified problems were not successful (see page 25).

-- Apparently about $8.3 million in program funds were not liquidated or decommitted in a timely manner. This occurred because actions were not taken to resolve questions related to expired Letters of Commitment (see page 31).

The report contains recommendations to address these problems. It also contains our comments on ways USAID/Pakistan could better comply with laws and regulations and improve internal control systems (see page 34).

In their comments to a draft of this report, USAID/Pakistan generally concurred with the findings and recommendations. However, they did not concur with a recommendation to have the Government of Pakistan deposit into special accounts the amount of local currency reported as paid for unallowable incidental costs, and they were not fully responsive to the finding and recommendations concerning controls over the receipt of commodities. Management comments are summarized after each finding and presented in their entirety as Appendix 1 to this report.

Office of the Inspector General

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AUDIT OF
COMMODITY IMPORT PROGRAMS
IN PAKISTAN

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IN PAKISTAN

PART I - INTRODUCTION

A. Background

A.I.D. funded three **Commodity Import Programs in Pakistan:** Agricultural Commodities and Equipment (ACE), Energy Commodities and Equipment (ECE), and the Agricultural Sector Support Program (ASSP). A primary objective of these programs was to provide balance of payment support to the Government of Pakistan through commodity imports from the United States. These commodities included wheat, fertilizer, cotton, and energy and agricultural related equipment and supplies. Exhibit 1 provides an analysis of obligations and expenditures by commodity.

Status of the Programs
As of May 31, 1989

Project	Agreement Date	Anticipated Completion Date	Funding Obligations (Expenditures) (in $ millions)	
ACE	Apr. 13, 1982	Apr. 15, 1990	$562	($479)
ECE	Aug. 30, 1984	Feb. 28, 1991	100	(60)
ASSP	Aug. 4, 1988	Feb. 3, 1990	90	(58)
			$752	($597)

The Foreign Assistance Act, A.I.D. policies, and the program agreements require that local currency generated from the sale of commodities be deposited into a special account and used for authorized purposes. A.I.D. regulations also require that the host country and/or mission have adequate systems to (1) determine whether commodities were received in the quantity and condition for which payment was made, (2) record claims for losses, shortages, or damage to A.I.D.-financed commodities, and (3) assure the commodities are properly used.

B. Audit Objectives and Scope

The audit objectives were to determine whether USAID/Pakistan had reasonable assurances that (1) local currency was deposited in special accounts and used for authorized purposes, (2) A.I.D.-financed commodities were actually received in the quantity and condition for which payment was made, and (3) commodities were properly used.

The audit was made at USAID/Pakistan offices in Islamabad and Karachi, eight Government of Pakistan organizations responsible for utilization of equipment and supplies, two Government of Pakistan organizations responsible for the receipt and billing for wheat and fertilizer shipments, two commercial banks involved with private importers, and judgmentally selected warehouses and equipment end-use locations.

The audit did not cover the utilization of about $43 million of equipment procured under the ACE Program for the Irrigation System Management Project. The utilization of most of this equipment was previously reported in our audit of Utilization and Maintenance of Selected Equipment in Pakistan (Audit Report No: 5-391-88-8, dated July 11, 1988).

The audit was performed during the period April through June 1989. It covered commodity arrivals and related USAID/Pakistan practices from April 1982 through June 22, 1989 and covered A.I.D. expenditures of $597 million. Review of compliance and internal controls was limited to the issues raised in this report. The audit was made in accordance with generally accepted government auditing standards.

PART II - RESULTS OF AUDIT

USAID/Pakistan needed greater assurances that local currency was deposited in special accounts and used for authorized purposes, A.I.D.-financed commodities were actually received in the quantity and condition for which payment was made, commodities were properly used, and excess program funds were decommitted in a timely manner.

USAID/Pakistan was generally aware of the problems and was in the process of taking certain actions prior to the audit. For example, USAID/Pakistan was taking actions to verify that local currency was deposited into special accounts and to ensure disbursements were in accordance with the program agreements. Also, a computerized system was being developed to improve monitoring of commodity arrival, disposition, and utilization.

This report includes four findings. One is the need for USAID/Pakistan to ensure that local currency was deposited in special accounts and used for authorized purposes. Two findings are related to inadequate assurances that A.I.D.-financed commodities were received by the Government of Pakistan and properly utilized. The fourth finding identifies potential to decommit excess program funds.

This report recommends actions to improve the monitoring of local currency generated under the Commodity Import Programs, improve controls over commodities, and increase assurances that excess program funds are decommitted in a timely manner.

A. Findings and Recommendations

1. Accounting For Local Currency

Controls over local currency need improvements to assure compliance with legislative and A.I.D. requirements. Specifically, USAID/Pakistan was not successful in its actions to obtain required reports from the Government of Pakistan or to be involved in the programming of local currency. As a result, USAID/Pakistan did not ensure that local currency equivalent to about $184 million was deposited in special accounts and used for authorized purposes.

Recommendation No. 1

We recommend that USAID/Pakistan:

a. ensure the Government of Pakistan deposits into the special accounts the $44.3 million (Rs 664 million) reported as paid for unallowable incidental costs;

b. ensure the Government of Pakistan deposits into the special accounts the remaining $60.3 million (Rs 1,178 million) which had not yet been deposited;

c. ensure that documentation exists to substantiate that $79.5 million (Rs 1,168) was actually deposited into special accounts as reported by the Government of Pakistan and was spent for authorized purposes;

d. obtain necessary data from A.I.D./Washington's Office of Financial Management and/or the participating commercial banks in Pakistan to determine when local currency should be deposited into the special account from generations under the private sector components of the Commodity Import Programs;

e. ensure that local currency which should have already been generated under the private sector components of the commodity import programs was deposited into the special accounts;

f. advise the Government of Pakistan that the amount deposited into the special accounts should be equal to proceeds generated from the sale of the commodity without regard to incidental costs related to the sale;

g. review with the Government of Pakistan the specific procedures for depositing, programming, releasing, and controlling the local currency, and for monitoring and evaluating the implementation of specific activities (including reporting requirements); and

h. discuss with the Government of Pakistan the feasibility of using the local currency to make up shortages in their allocations of contributions to A.I.D.-funded projects.

Discussion

Section 609 of the Foreign Assistance Act requires that local currency generated under A.I.D.-funded Commodity Import Programs be deposited into a special account. This Section also requires that the local currency be used for programs agreed to by A.I.D. "... **to carry out the purposes for which new funds authorized by this Act would themselves be available....**"

A.I.D. Policy Determination No. 5 prescribes guidance for programming and monitoring the local currency generated under Commodity Import Programs. The guidance encourages A.I.D. participation in programming local currency to achieve developmental objectives and to meet the host country's required contributions to A.I.D.-funded projects. When the currency is to be used for sector-support activities, the mission should ensure that the recipient government used the currency for priority areas and that documentation exists to show that the local currency was transferred to the respective development account.

The guidance also prescribes that the mission should review with the recipient country the specific procedures for programming, releasing, and controlling the local currency and for monitoring and evaluating the implementation of specific activities (including reporting requirements). If the government procedures need improvement, a portion of the local currency should be used to develop the necessary systems and procedures for financial oversight.

The three Commodity Import Program agreements for Pakistan require the Government of Pakistan to deposit the local currency proceeds from the sale of all grant-funded and some loan-funded commodities into special accounts. These proceeds in turn are to be jointly programmed by the Government of Pakistan and USAID/Pakistan for use in development activities in such areas as agriculture, rural development, water resources, energy, population, education, health, and/or any other areas to which both parties agreed to in writing. The agreements also require the Government to provide USAID/Pakistan written semi-annual reports on the balances remaining in the special accounts and the withdrawals and uses of the funds.

USAID/Pakistan had recognized the problems concerning the monitoring of local currency. For example, in its Internal Control Assessment for the year ended October 15, 1988, USAID/Pakistan noted that it had unsatisfactory control techniques to (1) verify that local currency was deposited in correct amounts and on a timely basis and (2) ensure deposits were promptly reported to USAID/Pakistan and disbursements were in accordance with the program agreements.

USAID/Pakistan's difficulties in monitoring local currency were attributed to a number of interrelated and compounding problems. These included (1) local currency was not generated and deposited in a timely manner, (2) the Government of Pakistan did not provide USAID/Pakistan with reports required under the program agreements and the reports provided were not accurate, and (3) USAID/Pakistan's corrective actions were not successful in ensuring that required deposits were made into special accounts and used for authorized purposes. These issues are discussed below.

Local Currency Generations and Deposits - The Government of Pakistan should have deposited about $184 million (Rs

3,011 million) into special accounts as of June 22, 1989. Available data reported by the Government of Pakistan indicated that only about $79.5 million (Rs 1,168 million) was deposited and used.

The shortage of $104.6 million (Rs 1,843 million) was primarily because the Government (1) did not deposit $63.9 million (Rs 1,195 million) which should have been generated from A.I.D.-funded wheat shipments that arrived in Pakistan between September 1988 and March 1989 and (2) deducted $44.3 million (Rs 664 million) in incidental costs, such as Government import taxes, prior to making deposits into the special accounts. (The reason the total shortage was less than the amounts attributed to specific causes was because the Government erroneously deposited some local currency generated from A.I.D. loan-funded commodities.) Exhibit 2 provides a comparison of estimated local currency which was or should have been generated to reported deposits and expenditures from the special accounts.

A responsible Government official said the reason no deposits had yet been made for the 1988/89 A.I.D.-funded wheat shipments was because the provincial governments and other recipients of the wheat had large outstanding debts for wheat distributed to them. Although this was true, the recipients had paid $52.1 million (RS 1,011 million) subsequent to the receipt of the A.I.D.-funded wheat, but the billings and collections did not distinguish between A.I.D.-funded and other wheat.

In regard to incidental costs, it was the opinion of the Legal Counsel for the Inspector General that the practice of deducting incidental costs prior to depositing the local currency into the special account was not correct. He stated that this practice violated both Section 609 of the Foreign Assistance Act and the Commodity Import Program agreements. The Legal Counsel also determined that the agreements did not allow the use of local currency to pay incidental costs claimed by the Government of Pakistan. As shown in Exhibit 3, these unallowable claims totaled $44.3 million (Rs 664 million).

In addition to the problems discussed above, local currency was also supposed to be generated and deposited for sales under the private sector components of the Commodity Import Programs. However, the amount that should have been deposited at the time of the audit could not be determined. USAID/Pakistan officials said the A.I.D./Washington Office of Financial Management and some of the participating commercial banks in Pakistan had not provided all documents necessary to determine required deposit dates and amounts. Available documentation at USAID/Pakistan showed that about $25.7 million in local currency should eventually be deposited as a result of private sector sales as of May 31, 1989.

The amount of local currency actually deposited into the special accounts could not be determined during the audit. This problem is more fully discussed in the following two sections of this finding.

Government of Pakistan Reporting - The Government of Pakistan did not provide semi-annual reports to USAID/Pakistan on the generation and uses of local currency as required under the program agreements. The first report was due January 15, 1983. The Government did submit some semi-annual reports on deposits but the first report on withdrawals and uses was not submitted to USAID/Pakistan until April 1989.

Furthermore, the reports provided were not accurate, were inconsistent, and were of very little use to USAID/Pakistan in monitoring the generation and uses of the local currencies. Examples of some of the problems in the Government's reporting included the following:

-- The Government reported to USAID/ Pakistan in March 1989 that total local currency deposits amounted to about $151 million (Rs 2,163 million) as of September 1988. The only report on the uses of the local currency was submitted to USAID/Pakistan in April 1989. This report identified that only about $79.5 million (Rs 1,168 million) was deposited and disbursed from the accounts. This report also stated that the balances in the special accounts was "NIL". The Government stated that the amounts identified in the April 1989 report were tentative and that an audit report with the actual amounts would be provided to USAID/Pakistan. The audit report had not been provided as of June 1989.

-- The Government of Pakistan reported in August 1988 that $27 million (Rs 470.3 million) generated from fertilizer sales was deposited on June 22, 1987. However, ten months later in April 1989, the Government reported that only $5.1 million (Rs 88.7 million) was deposited during the entire year ended June 30, 1987.

-- In June 1986, the State Bank of Pakistan was directed to deposit $33 million (Rs 558.5 million) generated from wheat sales into the special account. However, in August 1988, the Government of Pakistan reported that the State Bank of Pakistan had no record of any deposits into the special account from wheat sales.

Also, the Government had not reported any deposits of local currency generated under the private-sector components of the Commodity Import Programs.

USAID/Pakistan Actions - USAID/Pakistan had recognized the problems concerning the generation and use of local currency and had made a concerted effort, especially in the past year, to resolve the problems. For example, numerous meetings were held in an effort to obtain the required semi-annual reports from the Government of Pakistan on the generation and use of local currency. Extensive efforts were also made to reconcile USAID/Pakistan's estimates on what should have been generated and deposited to the amounts reported by the Government. In addition, USAID/Pakistan had directed attention on the need to be involved in programming the uses of local currency and noted several A.I.D.-funded projects which would have serious implementation problems due to anticipated shortages in Government of Pakistan contributions.

Notwithstanding these extensive efforts, USAID/Pakistan was not successful in obtaining a better accounting on the generation and uses of the currency or becoming involved in the programming of local currency. For example, in an April 1989 meeting with the Government, USAID/Pakistan stated that it considered agricultural education and research along with irrigation to be particularly high priority areas for the $49 million (Rs 917 million) which was to be generated from wheat received during the period September 1988 through March 1989.

The Government's "proposed" allocation in June 1989 contained only $4.5 million (Rs 90 million) for the priority areas identified by USAID/Pakistan. Most of the remaining local currency was proposed for power generation. Furthermore, the amount of local currency generated from A.I.D.-financed grant shipments of wheat received from September 1988 through March 1989 should have amounted to $64 million (Rs 1,195 million) -- not $49 million.

USAID/Pakistan did not know for what purposes the local currency was spent. For example, the Government reported that $7.2 million (Rs 120.9 million) from the special account was spent for development under the Ministry of Science and Technology Demand No. 164 for the year ended June 30, 1986. However, USAID/Pakistan did not know what activities were funded and lacked documentation to show that the local currency was transferred to authorized development accounts.

The auditors also attempted to trace the Government's reported allocations and expenditures of $6.0 million (Rs 104 million) from the special account for the development expenditures of the Ministry of Science and Technology Demand No. 169 for the year ended June 30, 1988. This Demand provided funding for several sectors. The purpose of these expenditures could not be determined at USAID/Pakistan. It was possible that these amounts budgeted and allocated were not actually spent. For example, the budget estimate for the health sector under Demand No. 169 was $500,000 (Rs 8.5 million) whereas the reported allocation was $350,000 (Rs 6.3 million) and the corresponding expenditure for the health sector was only about $33,000 (Rs 600,000).

Conclusion - The Government of Pakistan did not provide required reports, and USAID/Pakistan was not successful in ensuring compliance with requirements for the deposit and use of local currency. As a result, there was no assurance that local currency equivalent to about $184 million was deposited in special accounts and used for authorized purposes.

There are actions prescribed in A.I.D. Policy Determination No. 5 that USAID/Pakistan should take concerning the programming and accounting for local currency. For example, USAID/Pakistan should review with the Government the specific procedures for programming, releasing, and controlling the local currency, and monitoring and evaluating the implementation of specific activities (including reporting requirements). A portion of the local currency could be used to develop the necessary systems and procedures for financial oversight.

Also, when the local currency is to be used for sector support, the amount of local currency deposited into the special accounts and the amount transferred to the respective development accounts should be clearly documented. USAID/Pakistan's oversight on the use of local currency could also be improved if such funds were allocated to make up deficits in the Government's contributions to A.I.D.-funded projects.

<u>**Management Comments**</u>

USAID/Pakistan did not concur with Recommendation No. 1(a) to ensure that the Government of Pakistan deposits into special accounts the $44.3 million (Rs 664 million) reported as paid for unallowable incidental costs. USAID believed that the Government's fiscal policy would not allow for the recommended corrective action. USAID further contends that the intent of A.I.D.'s participation in local currency programming was in fact met and the shortfalls in the special accounts did not result in shortfalls in development expenditures.

USAID/Pakistan generally concurred with the overall finding and with Recommendations No. 1(b) through (h). USAID stated that it would take actions to (1) inform the Government of Pakistan that the local currency should be deposited when generated, (2) obtain documents to support that $79.5 million (Rs 1.2 billion) in reported deposits were used for authorized purposes, (3) inform the Government that incidental costs may not be deducted from local currency generated in the future, (4) work with the Government on specific procedures to ensure there are adequate controls over the deposit and use of local currency, and (5) would discuss with the Government of Pakistan the option of using the local currency if there are shortfalls in the Government's allocation of funds for A.I.D.-assisted projects.

USAID/Pakistan suggested that Recommendations No. 1(c) be modified to state "obtain audited expenditure reports from the Government of Pakistan to ensure that $79.5 million (Rs 1.2 million) was spent for the jointly agreed purposes." USAID referred to certain documents as proof of deposits and believed that the audited report of expenditures would provide an adequate assurance that local currency had been used for the designated and jointly agreed purposes.

Office of Inspector General Comments

Based on USAID/Pakistan's comments, part (a) of Recommendation No. 1 is considered unresolved. Although we recognize that it is difficult to resolve the problem, USAID/Pakistan should obtain a legal opinion to determine if the reasons cited in its comments justify not implementing the recommendation. As noted in this report, it was the opinion of the Legal Counsel for the Inspector General that the Commodity Import Program agreements did not allow for the use of local currency to pay incidental costs claimed by the Government of Pakistan.

Parts (b) through (h) of Recommendation No. 1 are resolved. Part (b) will be closed when the Government of Pakistan deposits the required local currency in the special accounts. Part (c) will be closed when USAID/Pakistan provides documentary support that $79.5 million (Rs 1.2 billion) was deposited and used for authorized purposes. Parts (d) and (e) will be closed when USAID/Pakistan obtains necessary data on the generation of local currency under the private sector components and ensure the required deposits not yet made are deposited. Part (f) will be closed when the Government is notified that total proceeds from the sale of commodities should be deposited in special accounts. Part (g) will be closed when USAID/Pakistan provides evidence that the procedures developed to monitor local currency are effective in meeting the requirements of A.I.D. Policy Determination No. 5. Part (h) will be closed when USAID/Pakistan discusses with the Government of Pakistan the feasibility of using the local currency to make up any shortages in the Government's current allocations of contributions to A.I.D.-funded projects.

Concerning the documents identified by USAID/Pakistan as proof of deposits and their suggestion that we modify Recommendation No. 1(c), the documents (submitted by the Government of Pakistan in August 1988) were reviewed at the time of the audit and used as examples in this finding to illustrate that the documents provided by the Government were not accurate and were inconsistent with other reports. Thus, we did not revise the recommendation. We could, however, close this recommendation based on the Government's audited expenditure report if the report confirms that the local currency was deposited and spent for authorized purposes.

2. Commodity Arrival and Disposition

Arrival and disposition systems for A.I.D.-funded commodities needed improvement. This occurred because USAID/Pakistan, although required by A.I.D. regulations, did not review the Government of Pakistan's arrival and disposition systems for wheat and equipment and did not effectively implement its own system on the arrival and disposition of equipment. As a result, USAID/Pakistan lacked assurance that commodities were actually received in the quantity and condition for which payments were made.

Recommendation No. 2

We recommend that USAID/Pakistan develop procedures or revise existing procedures to ensure:

a. appropriate reviews are made to determine whether or not the Government of Pakistan has adequate arrival and disposition systems for A.I.D.-funded commodities as required by A.I.D. Handbook 15, Chapter 10; and

b. USAID/Pakistan commodity management or their monitoring of the Government of Pakistan's systems are effective to ensure commodities are received in the quantity and condition for which payment was made.

Discussion

USAID/Pakistan did not ensure that there were adequate arrival and disposition systems for A.I.D.-funded commodities as required by A.I.D. Regulation 1, Section 201.41, and A.I.D. Handbook 15, Chapter 10. Such systems are to (1) provide evidence that commodities are received in the quantity and conditions for which payment was made, (2) record and appropriately resolve claims for losses, shortages or damage to A.I.D.-financed commodities, and (3) assure the proper utilization of the commodities.

Missions are also required to maintain a current description, approved by the mission controller, of a host country's commodity arrival and disposition systems, the mission's evaluation of the system, and the mission's established monitoring procedures. If the host country's systems are not adequate, the mission is to maintain its own systems until the host country's systems become adequate.

The required reviews and certifications on the Government of Pakistan's systems for wheat and equipment items were not made. USAID/Pakistan relied solely on the Government's systems for wheat but assumed management responsibilities for equipment. USAID/Pakistan Order PAK 15-1, which outlines the mission's policy and procedures over commodity arrival and disposition, did not address the need for review and certification of the Government of Pakistan's commodity arrival and disposition systems.

As a result of not making the reviews of the Government's systems and not effectively implementing its own established procedures to account for A.I.D.-financed equipment, USAID/Pakistan did not have assurances that commodities were received in the correct quantity and in good condition. In some cases, commodities paid for were not received or were received in damaged condition, but USAID/Pakistan either was not aware of the problem or did not take actions necessary to resolve the problems. The problems regarding wheat and equipment items are discussed below.

Wheat - USAID/Pakistan relied solely on the Government to account for the arrival and disposition of wheat shipments under the Agricultural Commodities and Equipment (ACE) and Agricultural Sector Support Program (ASSP) programs for which A.I.D. made payments of $285 million. The only USAID/Pakistan review of the Government's accounting arrival and disposition systems for wheat was in March 1989 of the handling operations at the port in Pakistan. The reviewers concluded that the wheat handling was generally satisfactory, but accountability needed to be improved. The reviewers estimated that more than 5 percent of the wheat imports could be damaged or lost at the port due to inadequate handling and bagging procedures. A Government of Pakistan Auditor General review in 1989 also noted that the handling of wheat imports at the port were carried out very carelessly, leading to spillage and damage to the wheat.

Our audit disclosed additional problems concerning assurances that the type of wheat paid for was received. The wheat contracted and paid for was U.S. No. 2 or better Soft White Wheat which required certain standards such as not more that 5 per cent total defects (e.g., damaged kernels and foreign materials). Government of Pakistan reports for a sample of grant-funded shipments showed that much of the wheat did not meet the standards set forth in the contracts. For example, the test results for three shipments that arrived in January and February 1989 showed that the total defects averaged 10.5 per cent which was 5.5 per cent more than allowed under the contract terms. The total quantity and payments (excluding freight charges) for the three shipments were 65,078 metric tons and $10.8 million, respectively. One shipment received in February 1986 for which A.I.D. paid $1.4 million was Western White Wheat instead of the contracted for Soft White Wheat. Pakistan laboratory officials said they did not know the difference between Western White Wheat and Soft White Wheat.

U.S. Department of Agriculture and U.S. Wheat Association officials located in Singapore said that if the wheat received did not meet the standards for U.S. No. 2 Soft White Wheat, then the price paid for the wheat should have been reduced.

There were, however, questions regarding the adequacy of testing done by the Government of Pakistan. For example, for the same shipments the Government's testing laboratory usually reported moisture content of less than 5 per cent compared to the moisture content of about 9 per cent reported by the U.S. Department of Agriculture at the time of export. The U.S. officials located in Singapore said it was extremely doubtful that the moisture content would ever be lower than 6 per cent.

<u>Equipment Items</u> - USAID/Pakistan assumed control over the receipt and disposition of A.I.D.-financed equipment, spare parts, and supplies. USAID/Pakistan Orders PAK 17-13 and PAK 15-1 prescribed policies and procedures for these commodities. For example, USAID/Pakistan Office of Contracts and Commodities in Islamabad was to maintain controls over A.I.D.-financed commodities that arrived in Pakistan; ensure that A.I.D.-financed commodities were properly accounted for and delivered to project sites; and monitor losses, damages, and shortages and obtain settlement for such claims.

Also, USAID/Pakistan project officers were to ensure major equipment and special purpose vehicles were opened, inspected, and/or assembled within 90 days of arrival. An Outgoing Status Report was to identify quantity and units received, date received by the using organization, and the items short, damaged, or lost. A Receiving and Inspection Report was to be completed when the commodities were inspected and accepted by the Government of Pakistan.

These procedures were not effectively implemented. For example:

-- About $1.8 million of the $10.8 million of equipment selected for examination had been in Pakistan more than 90 days but had not yet been opened, inspected, and/or assembled.

-- Subsequent to the start of the audit in April 1989, the USAID/Pakistan Karachi office sent the Islamabad office survey reports performed by independent contractors on 21 equipment shipments which arrived in Pakistan between July 1988 and March 1989. All of these reports identified shortages or damages, but there had been no action taken to process and settle claims against the supplier, shipper, or insurance company.

-- Two of the above survey reports noted that no invoice/packing list was available at the time of the survey and, therefore, shortages could not be ascertained. There had been no follow-up to assure commodities paid for were actually received.

-- USAID/Pakistan officials said the Project Receiving and Inspection Report was not used and a review of files on 20 judgmentally selected bills of lading found that the Outgoing Status Report was not completed for about $9.0 million of equipment under 12 of the bills of lading.

At the time of the audit, USAID/Pakistan had recently developed and was starting to implement a comprehensive computerized system to monitor the arrival and disposition of A.I.D.-financed equipment, spare parts, and supplies.

Conclusion - The computerized system may improve controls over A.I.D.-financed equipment, spare parts, and supplies. However, USAID/Pakistan should improve its procedures to assure that the Government's commodity arrival and disposition systems are reviewed and commodities are received in the quantity and condition for which payment was made.

Management Comments

USAID/Pakistan did not address the specific actions recommended in this finding. USAID stated that A.I.D. Handbook 15, Chapter 10, required a review of the Government of Pakistan's overall commodity arrival and disposition system and was of the opinion this requirement was met. USAID further stated that inspections of project commodities have shown that public sector agencies have difficulty in maintaining control and properly utilizing Commodity Import Program-funded commodities.

Office of Inspector General Comments

Based on USAID/Pakistan's comments, Recommendation No. 2 is unresolved. Although USAID/Pakistan was of the opinion that A.I.D. Handbook 15 requirements were satisfied, no documentary evidence was provided to support their position. Furthermore, this report notes that USAID's established policies and procedures did not address the need for review and certification of the Government of Pakistan's commodity arrival and disposition system.

USAID/Pakistan also did not address the two major problem areas discussed in this finding: the Government's arrival and disposition system for wheat and USAID/Pakistan's implementation of its own system on the arrival and disposition of equipment.

Recommendation No. 2 will be closed when USAID/Pakistan provides documentary evidence that the recommended actions were completed.

3. Commodity Utilization

USAID/Pakistan lacked adequate assurances that A.I.D.-funded equipment was effectively utilized. This occurred because USAID/Pakistan lacked necessary information to monitor commodity utilization and was not successful in resolving identified problems. As a result, about $4.8 million of the $10.8 million of equipment reviewed was not effectively utilized.

Recommendation No. 3

We recommend that USAID/Pakistan ensure the proper utilization of the $4.8 million of equipment identified in this report as not being effectively utilized.

Discussion

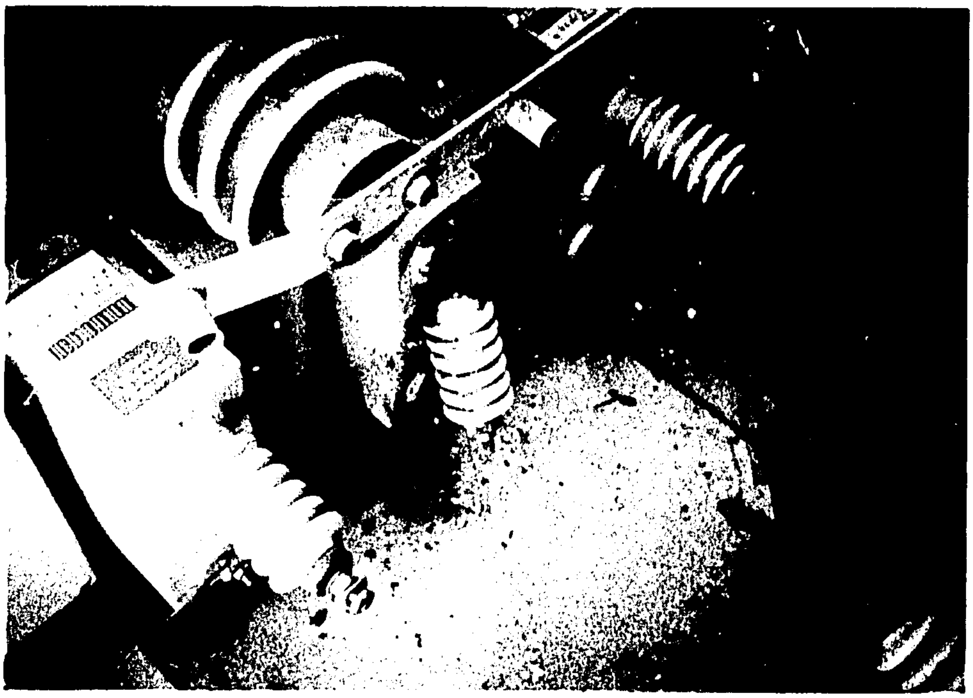
A.I.D. Handbook 15, Chapter 10, states that end-use reviews are essential to assure the proper utilization of A.I.D.-funded commodities. These reviews should determine whether (1) commodities are being utilized properly and in a timely manner, (2) appropriate corrective action is planned for damaged or poor quality equipment, and (3) commodity utilization plans are established with interim levels of achievement. The program agreements provide that the commodities are to be effectively used and that A.I.D. could request a refund from the Government of Pakistan if commodities are not effectively utilized.

USAID/Pakistan had made several end-use reviews of commodities financed under the Agricultural Commodity and Equipment (ACE) and Energy Commodity and Equipment

(ECE) programs; however, overall systemic information for monitoring commodity utilization was lacking. For example, project officials did not have adequate information on the type, value, and location of program commodities. In addition, USAID/Pakistan did not always successfully resolve identified problems.

About $4.8 million of the $10.8 million of equipment reviewed for utilization was not effectively utilized. The primary reasons for the unutilized equipment included damaged items, inadequate facilities, lack of experienced personnel, and missing operating instructions. A detailed listing of equipment utilizations problems found during site visits is shown in Exhibit 4. A brief summary and photographs of some problems are noted below:

-- In September 1987 the Karachi Electric Supply Corporation reported to USAID/Pakistan that six shunt capacitors were received in damaged condition and requested USAID/Pakistan to file an insurance claim. Due to an oversight, USAID/Pakistan did not pursue this matter with the result that three capacitors still had not been used and the other three had been cannibalized. Corporation officials said they were still waiting to hear from USAID/Pakistan concerning the insurance claim but had cannibalized the three because the parts were critically needed for the power-generating system. The six capacitors cost $86,000.

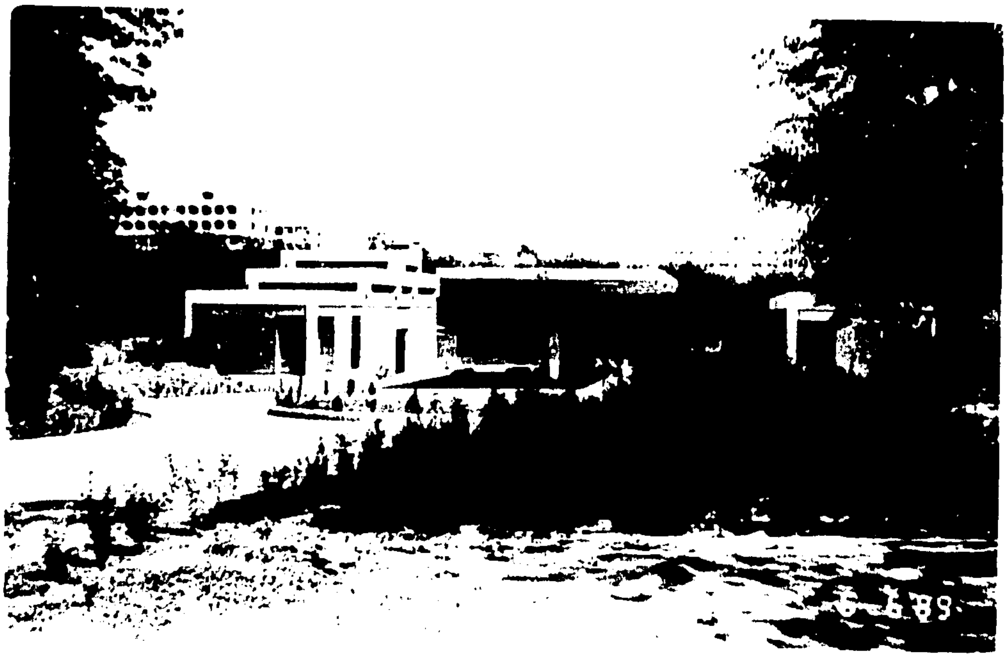


Part of a broken shunt capacitor

About $650,000 of the $1.3 million of solar equipment that was supposed to be with the Pakistan Council for Scientific and Industrial Research could not be accounted for by Council or USAID/Pakistan project officials. This equipment was reportedly received at the Council between October 1987 and January 1989. The officials said there were two reasons for the problem: the major supplier did not provide a packing list identifying what was shipped, and the Council personnel had not yet inspected everything that was received.

Based on the information on the large crate shown in this picture and invoice details, the crate contains one or two steam turbines at a cost of $68,000 each. The crate was received in April 1988 but had not yet been opened.

Equipment worth about $340,000 for the operation of a Compressed Natural Gas station was received between July and August 1988 by the Hydrocarbon Development Institute of Pakistan. Although all the equipment had been installed, none of it had been operated as the station had not yet been commissioned. Institute officials said that they were awaiting utility connections and did not know when operations could start.



Uncommissioned Compressed Natural Gas station
in Islámabad

A $664,000 spectrometer for fuel research was received at the Pakistan Council for Scientific and Industrial Research in May 1988. The unit was never installed because funds were not available to maintain a steady supply of helium which was needed to operate the unit.

Uninstalled spectrometer

USAID/Pakistan officials were aware of many of the commodity utilization problems but were not systematically compiling information needed to monitor commodity use and taking appropriate corrective actions when needed.

USAID/Pakistan had initiated a concerted effort, prior to the audit, to develop a comprehensive computerized system for monitoring equipment utilization. By the end of the audit, USAID/Pakistan was inputting data into the computer.

In conclusion, the computerized system should help resolve the systemic problems of inadequate monitoring of equipment utilization. USAID/Pakistan should, however, take actions to ensure utilization of the $4.8 million of equipment identified in this finding.

Management Comments

USAID/Pakistan concurred with the recommendation to ensure the proper utilization of the $4.8 million worth of equipment identified in the report as not being effectively utilized. USAID stated that about $2.2 million of the commodities had been put into use since they received a draft of this report.

Office of Inspector General Comments

Based on USAID/Pakistan's comments, Recommendation No. 3 is resolved and will be closed when USAID/Pakistan provides documentary evidence that it has completed the recommended action.

4. Commitment of Funds

USAID/Pakistan lacked assurance that excess funds were identified and decommitted. This occurred because USAID/Pakistan did not effectively follow up with A.I.D./Washington to resolve apparent problems related to expenditures under expired Letters of Commitment. As a result, about $8.3 million in program funds were not liquidated or decommitted in a timely manner.

Recommendation No. 4

We recommend that USAID/Pakistan obtain necessary information from A.I.D./Washington's Office of Financial Management to determine the extent the $8.3 million of unliquidated funds identified in this finding can be decommitted.

Discussion

During the past year USAID/Pakistan had increased their efforts to identify the potential to decommit funds under Letters of Commitments. This effort had resulted in actual and pending decommitments of more than $5 million.

Notwithstanding these efforts, USAID/Pakistan did not fully comply with A.I.D. Handbook 19 requirements for identifying and decommitting excess funds. Based on our review of Letters of Commitment which the A.I.D./ Washington's Office of Financial Management reports identified as expired as of March 31, 1989, it appeared USAID/Pakistan should be able to liquidate or decommit approximately $8.3 million. An analysis of this amount by Letter of Commitment is shown in Exhibit 5.

USAID/Pakistan recognized that more could be done to identify and decommit excess funds under Letters of Commitment. They stated, however, that the Office of Financial Management did not always provide timely and accurate information to identify excess funds. Examples provided or identified by the audit included the following:

-- expiration dates, which is the last date the supplier can submit vouchers to A.I.D. for payment, on the Status of Disbursing Authorizations (243 M and W-743) reports were not correct in a few cases;

-- the 243 M reports were to be provided monthly but the last one received by USAID/Pakistan at the end of June 1989 was the report as of March 31, 1989; and

-- copies of payment vouchers were not always provided to USAID/Pakistan.

USAID/Pakistan's efforts to decommit funds could be enhanced by identifying expired Letters of Commitment and following up with A.I.D./Washington's Office of Financial Management to determine the status of funding.

Management Comments

USAID/Pakistan concurred with the recommendation to determine the extent the $8.3 million of unliquidated funds identified in this finding could be decommitted. USAID stated that actions had been taken to decommit $4.3 million and the remaining $4.0 million was still needed to meet the requirements of ongoing activities.

Office of Inspector General Comments

Based on USAID/Pakistan's comments, Recommendation No. 4 is resolved and will be closed when USAID/Pakistan provides documentary evidence that the necessary information was obtained from A.I.D./Washington and the excess funds were decommitted.

B. Compliance and Internal Controls

Compliance

Finding 1 discusses that the Government of Pakistan did not provide USAID/Pakistan with reports required on local currency, and USAID/Pakistan did not fully comply with A.I.D. policies for monitoring the generation and use of the currency. Finding 2 and 3 discuss that USAID/Pakistan did not fully comply with A.I.D. requirements for monitoring the receipt, disposition, and utilization of commodities. Finding 4 notes that USAID/Pakistan did not fully comply with A.I.D. policies to identify and decommit excess program funds. The Other Pertinent Matters section of this report discusses that USAID/Pakistan did not ensure compliance with A.I.D. or program agreement requirements concerning source and origin of equipment, utilization of spare parts and supplies, and reporting on local currency. The audit review of compliance was limited to the findings presented in this report.

Internal Controls

All four findings and the Other Pertinent Matters section in this report identify inadequate internal controls. Finding 1 discusses the need for better controls over local currency generated under the Commodity Import Programs. Finding 2, 3 and Other Pertinent Matters discuss the need for improved controls over the receipt, disposition and utilization of commodities. Finding 4 discusses the need for improved controls to assure excess programs funds are decommitted in a timely manner. The report recognizes that USAID/Pakistan was aware of the areas which needed improvements and was taking actions to resolve the problems. The audit review of internal controls was limited to the findings presented in this report.

C. Other Pertinent Matters

The Commodity Import Program agreements require that unless a waiver was issued, the commodities procured must have a source and origin of the United States. The audit found more than $1.1 million in commodities that possibly did not meet this requirement. These cases were referred to the appropriate A.I.D. offices.

The Energy Commodities and Equipment agreement requires that the commodities provided be used within one year after clearing customs. About $3.9 million of the $11.9 million of spare parts and supplies reviewed for utilization were not used within this timeframe. A detailed list of these unutilized commodities found during site visits is shown in Exhibit 6. Government of Pakistan officials said there were plans to use most of these commodities, but the plans were not provided to USAID/Pakistan.

A.I.D. Handbook 19 requires missions to provide A.I.D./Washington information on special accounts containing local currency generated under Commodity Import Program agreements. The information should be provided via the U-205 report entitled "Counterpart Fund Special Account - Trial Balance and Related Summaries." USAID/Pakistan did not provide the required information to A.I.D./Washington. Therefore, A.I.D.'s worldwide "Status of Foreign Currency Funds" report (W-213) omitted information on local currency generated by Commodity Import Programs in Pakistan.

One foreseeable problem with the computerized system being developed by USAID/Pakistan to improve monitoring of commodity utilization was that the cost of the commodities was not being put into the system. In our opinion, the identification of the cost would enable USAID/Pakistan to more effectively monitor utilization of the more costly commodities.

PART III - EXHIBITS AND APPENDICES

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Exhibit 1

Analysis of Commodity Import Program Obligations and Expenditures by Commodities as of May 31, 1989

Commodity	Obligations ($'000)	Expenditures ($'000)
Wheat	$330,037	$284,621
Fertilizer	165,772	165,280
Equipment	144,859	96,873
Private Importers	87,250	25,703
Cotton	24,082	24,082
	$752,000	$596,559

Exhibit 2

Comparison of Local Currency (Which Was or Should Have Been) Generated to Reported Deposits and Uses as of June 22, 1989

Commodity		Local Currency Generated		U.S. Dollar Equivalent 1/
Cotton	Rs	178,011,388	2/	$ 11,266,544
Wheat:				
Sept '85 - May '86		793,924,745		49,620,297
Sept '88 - Mar '89		1,194,760,432		63,890,932
Fertilizer:				
Apr '82 - Feb '85		640,989,822	2/	47,480,728
Mar - Apr '88		202,823,278		11,792,051
	Rs	3,010,509,665		$ 184,050,552
Less: Total Reported Deposits and Uses		1,167,938,469	3/	79,463,744
Unaccounted for Local Currency	Rs	1,842,571,196		$ 104,586,808

1/ The U.S. dollar equivalent is computed on the average exchange rate prevailing during the respective periods covered.

2/ Based on information provided by USAID/Pakistan and the Government of Pakistan without verification. However, the amounts appear reasonable based upon available documentation.

3/ This is the amount identified in the April 1989 report from the Economic Affairs Division of the Government of Pakistan Ministry of Finance and Economic Affairs to USAID/Pakistan on deposits and expenditures from the special accounts. This is the only report provided by the Government on the use of the local currency. The report identified that there was no balance in the special accounts.

Exhibit 3

Incidental Costs Reported by
the Government of Pakistan
as of June 22, 1989

Commodity	Reported Incidental Costs 1/	U.S Dollar Equivalent 2/
Cotton	Rs 15,884,288	$ 1,005,335
Wheat:		
Sept '85 - May '86	334,194,400	20,887,150
Sept '88 - Mar '89	Not reported	
Fertilizers:		
Apr '82 - Feb '85	257,792,102	19,095,711
Mar '88 - Apr '88	56,229,780	3,269,173
	Rs 664,100,570	$44,257,369

1/ The reported incidental costs include Government of Pakistan taxes and other costs such as handling, interest, etc. However, these costs were not authorized under the Commodity Import Program agreements.

2/ The U.S. dollar equivalent is computed on the average exchange rates prevailing during the respective periods covered.

**List of Equipment
Not Effectively Used
as of June 1989**

Location and Description of Item	Date Received	Value $'000	Utilization Problem
MART			
Peshawar			
'Kincaid' Combine Plot Harvester	05/88	$ 43	Brokedown
'Kincaid' Combine Plot Harvester	05/88	43	No Personnel Available
Almaco Sun Flower Planting Machine	11/87	5	No Personnel Available
2 Row Plot Planter	05/88	6	No Personnel Available
General Purpose Centrifuge	11/87	8	No Personnel Available
Hood Laminar Flow	10/87	6	No Personnel Available
Flame Photometer	10/87	13	No Personnel Available
2-3 Row Soybean Planter	11/87	3	No Personnel Available
NAPCO E Series Model 9000 D. Autoclave	10/87	3	No Personnel Available
Growth Chamber	10/87	4	No Personnel Available
Seed Dryer	11/87	34	No Personnel Available
Seed Counter	01/88	5	Not yet installed
Faisalabad			
Orbital Water Bath Shaker	10/87	2	Missing part

**List of Equipment
Not Effectively Used
as of June 1989**

Location and Description of Item	Date Received	Value $'000	Utilization Problem
High Vacuum Pump	08/87	$ 2	Missing transformer
Tintometer	10/87	3	Missing manuals
2 pcs Flame Photometer-AgU	10/87	25	Wrongly supplied - not appropriate for use
Flame Photometer-ARI	10/87	13	Wrongly supplied - not appropriate for use
Punching and Riveting Machine	10/87	9	Wrongly supplied - not appropriate for use
Rotavapor Mod R151	10/87	16	Not yet installed
Crude Fibre Apparatus	01/88	4	Not yet installed
2 pcs Seed Germinator (Single Chamber)		17	Non-availability of Consumables
TIPAN			
Buchi Rotavapor Model	1989	2	Defective Motor
Isotemp Programmable Furnace Model 495A	03/87	3	Damaged
Parr Adiabatic Calorimeter	12/88	5	Missing Parts
Fat Extractor	03/87	3	Missing Parts
AA Spectrophotometer	04/89	21	Not yet installed
HDIP			
Microscope Universal	01/89	109	Not yet installed

.44'

List of Equipment Not Effectively Used as of June 1989

Location and Description of Item	Date Received	Value $'000	Utilization Problem
X-ray Diffractometer	08/88	$ 190	Not yet installed
Stereo Zoom Transferscope	12/88	30	Missing manuals
Cabinets shipped	10/88	4	Lost or short
Compressors	08/88	233	Premises not ready
Storage Cascades, Pressure Gauges and Valves	07/88	93	Premises not ready
High Pressure Pipe Fitting	07/88	6	Premises not ready
3-way Fitting Valve	07/88	8	Premises not ready
KESC			
3 units of Shunt Capacitors	07/87	43	Cannibalised
3 units of Shunt Capacitors	07/87	43	Damaged
OGDC			
Logging Truck	10/88	1,892	Defective Parts
PCSIR			
Emission Spectrometer Plasma II-D	03/87	186	Defective Monitor
Microtrac Particle Size Analyser	08/88	56	Missing parts
Andersen Pollution Monitor	03/88	154	Missing manuals
Finnigan MAT 5100 Quad. GC/MS/	03/88	215	Brokedown

List of Equipment
Not Effectively Used
as of June 1989

Location and Description of Item	Date Received	Value $'000	Utilization Problem
Caroll-Jamaison Masterturn	03/88	28	Premises not ready
Radial Drilling Machine	03/88	53	Premises not ready
Buffalo Vertical Bending Roll	05/88	49	Not yet installed
Various Hewlett-Packard Equip.	01/89	215	Not yet installed
Ampak Solar Spectrum Reflectors	02/88	54	Not yet installed
2 pcs Steam Turbines	04/88	136	Not yet installed
Electron Microscope	04/88	70	Not yet installed
Superconducting High-Resolution Spectrometer	05/88	664	Non-availability of consumables
Total		$4,829	

Exhibit 5

Status of Funding Under Selected Letters of Commitment as of May 31, 1989

Supplier	L/COM 391	Expiration Date of L/COM 1/	Commitments 2/	Disbursement 2/	Probable Potential to Decommit or Liquidate
AEGIS International	K602-04	3-30-86 3/	$615,000	$517,500	$97,500
National Bank of Pakistan	K603-06	9-30-85	3,000,000	1,339,327	1,660,673
Pakistan Government	K604A-01	9-30-87	2,063,243	1,961,413	101,830
Canadian Maritime	K604A-04	3-10-86	1,137,150	984,050	153,100
Canadian Maritime	K604A-05	3-10-86	735,300	637,037	98,263
World Circle Ltd	K604A-18	5-15-86	770,560	747,105	23,455
Sun Transport Inc.	K604A-19	5-31-86	3,547,877	3,402,047	145,830
World Circle Ltd	K604A-22	6-15-86	583,296	522,114	61,182
USAID	K604A-28	9-18-88	3,827,219	3,268,050	559,169
CIDEC Inc	K604-29	1-9-89 3/	1,291,157	-	-
Pakistan Government	K604A-35	9-30-88	126,947	65,574	61,373
Pakistan Government	K605A-01	10-21-87	9,830,734	9,115,418	715,316
Horizon Trading Co.	K605A-47	3-30-89	144,139	44,077	100,062
ICEC	K604B-09	4-24-88	12,203,452	11,892,331	311,121
Commodity Trading	K604B-10	4-18-88	2,796,548	2,726,286	70,262
Marks Truck Inc.	K604B-16	7-31-88	829,495	755,531	73,964
Calif. & Hawaiian Sugar	K604C-05	6-16-88	1,498,497	1,424,813	73,684
Esterline Augus Inst.	K605B-43	3-30-89	299,095	149,548	149,547
Bankers Trust	K187B-04	11-27-88	1,000,000	115,069	884,931
Canadian Maritime	K187E-03	12-31-88	1,038,188	923,543	114,645
Ultramar	K187E-05	12-31-88	5,547,938	5,295,443	252,495
Bankers Trust	K193-03	2-28-89	5,969,801	5,916,843	52,958
USAID - City Bank	K193-05	2-28-89	2,500,000	-	2,500,000
Citi Bank	K193A-02	2-28-89	5,000,000	4,975,100	24,900
Bank of America	K193A-03	2-28-89 3/	5,000,000	918,214	-
Oani Missouri Transp.	T195-20	2-28-89	1,144,639	1,047,144	97,495
					$8,383,755

1/ Per AID/Washington's office of Financial Management 243M and W-743 reports as of March 31, 1989

2/ Per USAID/Pakistan MACS listing as of May 31, 1989

3/ These three L/COM's were extended: 602-04 to 12-31-86; 604-29 to 6-30-90 and 193A-03 to 2-28-90. Since two of this expiration dates have not arrived, we do not include an amount of these two in the probable potential to decommit or liquidate

List of Spare Parts and Supplies Not Used Within Required One-Year Timeframe as of June 1989

Location and Description of Item	Date Received	Value $'000
KESC		
1st Stage Nozzle Support Rings and Buckets for Site GTPS	05/87 to 10/87	$ 207
Nozzles, Shrouds, Caps, Tubes and Buckets for Korangi GTPS	05/87 to 10/87	151
OGDC		
233 pcs of 9 5/8" Pipes	02/87	241
30 pcs of 9 5/8" Pipes	02/87	30
3 pcs of 20" Casing Pipes	01/87	5
7 pcs of 13 3/8" Casing Pipes	01/87	7
4 reels of Steel Wire Ropes	02/87	38
53 pcs of 13 3/8" Casing Pipes	02/87	69
34 pcs of 13 3/8" Casing Pipes	02/87	44
157 pcs of 7" Casing Pipes	09/87	142

VB

List of Spare Parts and Supplies Not Used Within Required One-Year Timeframe as of June 1989

Location and Description of Item	Date Received	Value $'000
78 pcs of 7" Casing Pipes	09/87	$ 70
55 pcs of 17 1/2" Rock Bits	11/86	170
31 pcs of 8 1/2" Rock Bits	11/86	33
12MT of Cement Additive CAFL1	11/86	52
110MT of Cement Additive CAEX10	11/86	13
213.2MT of Cement Additive CAWH1	11/86	35
155.495MT of Mod. Chrome Lingosulf	01/87	64
9.495MT of Cement Additive HT Fluid Loss CA	01/87	5
5 pcs of Diamond Corehead 8.15/ 32" X 4"	12/86	36
3,687kg of Mud Chem CMC (HV) 5292 X 50 Bags	11/86	5
35 pcs of CDP Cables	11/86	40
WAPDA		
20 pcs LO Rot Blades 744J302007	03/88	261
120 pcs LO Rot Blades 744J302007	03/88	261

List of Spare Parts and Supplies Not
Used Within Required One-Year
Timeframe as of June 1989

Location and Description of Item	Date Received	Value $'000
120 pcs L0 Rot Blades 744J301007	03/88	$ 261
120 pcs L0 Rot Blades 744J301007	03/88	261
116 pcs L1 Rot Blades 6024J85001	03/88	156
1 set L0 Stat Seg Upr 667J720013	03/88	75
1 set L0 Stat Seg Upr 102J165109	03/88	75
1 set L1 Stat Seg Lwr 667J720014	03/88	52
1 set L1 Stat Seg Upr 102J165109	03/88	52
1 set L1 Stat Seg Lwr 102J165209	03/88	52
1 set L1 Stat Seg Upr 102J165109	03/88	52
1 set L1 Stat Seg Lwr 102J165209	03/88	52
1 set L1 Stat Seg Upr 667J720013	03/88	52
117 pcs L2 Rot Blades 6024J78001	03/88	201
117 pcs L2 Rot Blades 6024J79001	03/88	201

List of Spare Parts and Supplies Not Used Within Required One-Year Timeframe as of June 1989

Location and Description of Item	Date Received	Value $'000
117 pcs L2 Rot Blades 6024J79001	03/88	201
117 pcs L2 Rot Blades 6024J78001	03/88	201
Total		$3,923

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

Cable: USAIDPAK

HEADQUARTERS OFFICE
ISLAMABAD

RECEIVED
29 SEP 1989

THE DIRECTOR

MEMORAMDUM

26 SEP 1989

TO : Mr. Reginald Howard, RIG/A/Singapore

FROM : James A. Norris, Director, USAID/Pakistan

SUBJECT : Draft Audit Report on the Commodity Import Programs in Pakistan

While much of the information disclosed during the audit was already known and being addressed by the Mission, we believe, the areas of concern identified in your report will be useful to us in improving our implementation process. We value your work in this area. The following are our comments on the subject draft report:

Recommendation No. 1-a

USAID will inform the GOP that incidental costs may not be deducted from local currency generations against future grant funded commodities. However, it is not possible for the GOP to repair the defect in prior years' procedures at this time. To do so would require the GOP to report retroactively offsetting increased receipts and expenditures, which is not permitted by GOP fiscal policy and which would not increase the total budget allocated to the activities that were partially supported by AID local currency programming.

The intent of AID's participation in local currency programming was in fact met in past years despite the failure to channel the full required amount of local currency generations from commodity assistance through the special accounts. The development budget categories chosen by AID for attribution of local currency generations did in fact make effective use of local currency resources in amounts exceeding those generated by AID's commodity programs. Thus, the shortfall in flows through the special accounts did not give rise to shortfalls in development expenditures.

Recommendation No. 1-b

USAID will inform the GOP that this local currency should be deposited when generated. We will also discuss with the GOP how to ensure that generations occur in a timely fashion when the Provincial Governments are involved in the process (which seems to have been a source of problems recently).

Recommendation No. 1-c

The recommendation implies two things: (1) there exists no documentation to substantiate that $79.5 million (Rs.1.2 billion) have been deposited into Special Accounts and (2) whether the amounts were spent for authorized purposes.

26 SEP 1989

With regard to evidence in support of deposits to the Special Account, we have the following documentation in our file: (1) Report of deposits from the Economic Affairs Division of the Government of Pakistan and (2) A bank statement from the State Bank of Pakistan indicating that the deposit is made to the Special Account, copies of which are attached. These documents should be adequate proof of deposits. Regarding the use of these local currencies, we have received a tentative report of expenditure from the Director of Accounts, EAD of the Government of Pakistan. The Government of Pakistan has also forwarded this report to its Auditor General for clearance/signature. The Government of Pakistan has promised to submit an audit report soon. We believe the audited report of expenditures will provide an adequate assurance that local currency has been used for the designated and jointly agreed purposes.

We suggest the above recommendation be modified to state "obtain audited expenditure reports from the Government of Pakistan to ensure that $79.5 million (Rs.1.2 billion) was spent for the jointly agreed purposes."

Recommendation 1-d

The Mission has determined, in consultation with the Office of Financial Management in Washington, that FM is unable to provide the necessary data to determine when and what amount of local currency should be deposited into the special accounts from generation under the Private Sector Commodity Import Programs (PSCIP). Instead, the Mission will obtain this information from the seven participating commercial banks in Pakistan. When the exact dates of disbursements are not known, it will be assumed to be ten days after the date on the bill of lading. In June, all seven banks in Pakistan were requested to provide the missing information for earlier transactions. In September reminders will be sent to those who have still not supplied the information.

Recommendation 1-e

Once missing information of all earlier transactions has been obtained, the Mission will use computer software designed for the PSCIP to determine exactly how much should be deposited into Special Accounts. The Mission Controller will request EAD to periodically provide statements to confirm these deposits into the two Special Accounts.

Recommendation 1-f

USAID accepts this recommendation and will formally advise the Government of Pakistan. Also, a provision to this effect will be included in the future agreements.

Recommendation I-g

Deleted by RIG/A/S

26 SEP 1989

Recommendation No. 1-h

We already have a Mission Order (MO) No. Pak. 9-1 dated June 9, 1988 which lays down a procedure for depositing, programming, releasing and controlling local currency. This Mission Order also describes procedures and designates appropriate USAID officers for monitoring progress of the projects receiving counterpart funds. A copy of this Mission Order has already been provided to the Government of Pakistan. To ensure compliance, Mission will again circulate this Mission Order to both Government of Pakistan and Mission Officials. A copy of Mission Order No. Pak.9-1 is attached for your information.

Recommendation No. 1-i

Mission has never experienced a shortfall in the GOP allocation to AID assisted Projects. However, Mission is aware of the recommended approach and will use this option in case AID-assisted projects are subjected to any future cuts by the Government of Pakistan in its allocation of funds.

Recommendation 2-a

The Mission believes that Handbook 15, Chapter 10 requirement for a review to determine the adequacy of the Government of Pakistan's arrival and disposition system is not meant to be a review of the arrival and disposition system for each CIP importer, rather that it is incumbent upon the Mission to review the Government of Pakistan overall capability to clear commodities from customs, transport them to site and account for CIP-funded items. The Mission's staff performed this review during the design phase of the two CIPs. They have continued to review various importers' capabilities during implementation of the two CIPs.

During the program design it was recognized that the Government of Pakistan did not have an adequate arrival and disposition system. This was reflected by the fact that the design for the ACE program specifically included provision for paying inland transportation costs from appropriated funds. The designers also determined that many Government of Pakistan importers would not be able to readily, if ever, obtain duty free import permission or adequate funds to pay for the duties on imported commodities. This difficulty in obtaining duty free import for commodities, or funds to pay the duty on imported commodities, remains a major impediment for most Government of Pakistan public sector importers today. Also, many are still unable to pay inland transportation charges from their own resources. Lastly, inspections of project commodities have shown time and again that public sector agencies have difficulty in maintaining control and properly utilizing CIP funded commodities.

The Mission has decided to continue to clear from customs virtually all public sector CIP-funded commodities.

26 SEP 1989

The funds for doing so are trust funds owned by the Government of Pakistan but administered by AID. So, in essence, the Government of Pakistan is paying for these arrival costs. Because the Government of Pakistan is paying these costs the Mission believes that the intent of the Handbook, conserve dollar resources, has been met.

Recommendation 2-b

Likewise, numerous site visits by Project Officers have shown that Government of Pakistan agencies still have difficulty in maintaining accurate records to ensure that commodities are received in the quantity and condition for which payment is made. Thus, the Mission has had custom designed software developed to track all program and project commodities. The Mission believes that utilizing this tracking system ensures full and proper commodity accountability, including condition and quantity.

Recommendation 3

The Mission will ensure the proper utilization of $4.8 million worth of equipment identified in the report as not being effectively utilized. However, please note that Article 5.09 of the ACE Agreement allows two years for commodity utilization, not the one year assumed in the draft audit. Since the report was drafted, $2.156 million worth of commodities has been put into use. An additional $1.463 million worth of equipment will be put into use by the end of 1989 a total of 75% within 4 1/2 months. A few items which are not being effectively utilized, e.g., shunt capacitors, will be replaced or repaired if sufficient funds can be identified under the ECE program.

Recommendation No. 4-a

Mission has already requested AID/W for decommitments of $2.0 million in June and July 1989 of the $8.3 million identified in the report. The balance of $6.3 million has been examined by the Mission resulting in identification of additional decommitments of $2.3 million. AID/W is being requested to decommit the $2.3 million. The remaining $4.0 million is still needed to meet the requirements of ongoing activities.

Note: The documents attached to USAID/Pakistan's comments are not included in this report.

List Of Report Recommendations

Recommendation No. 1

We recommend that USAID/Pakistan:

a. ensure the Government of Pakistan deposits into the special accounts the $44.3 million (Rs 664 million) reported as paid for unallowable incidental costs;

b. ensure the Government of Pakistan deposits into the special accounts the remaining $60.3 million (Rs 1,178 million) which had not yet been deposited;

c. ensure that documentation exists to substantiate that $79.5 million (Rs 1,168) was actually deposited into special accounts as reported by the Government of Pakistan and was spent for authorized purposes;

d. obtain necessary data from A.I.D./Washington's Office of Financial Management and/or the participating commercial banks in Pakistan to determine when local currency should be deposited into the special account from generations under the private sector components of the Commodity Import Programs;

e. ensure that local currency which should have already been generated under the private sector components of the commodity import programs was deposited into the special accounts;

f. advise the Government of Pakistan that the amount deposited into the special accounts should be equal to proceeds generated from the sale of the commodity without regard to incidental costs related to the sale;

g. review with the Government of Pakistan the specific procedures for depositing, programming, releasing, and controlling the local currency, and for monitoring and evaluating the implementation of specific activities (including reporting requirements); and

h. discuss with the Government of Pakistan the feasibility of using the local currency to make up shortages in their allocations of contributions to A.I.D.-funded projects.

Recommendation No. 2

We recommend that USAID/Pakistan develop procedures or revise existing procedures to ensure:

a. appropriate reviews are made to determine whether or not the Government of Pakistan has adequate arrival and disposition systems for A.I.D.-funded commodities as required by A.I.D. Handbook 15, Chapter 10; and

b. USAID/Pakistan commodity management or their monitoring of the Government of Pakistan's systems are effective to ensure commodities are received in the quantity and condition for which payment was made.

Recommendation No. 3

We recommend that USAID/Pakistan ensure the proper utilization of the $4.8 million of equipment identified in this report as not being effectively utilized.

Recommendation No. 4

We recommend that USAID/Pakistan obtain necessary information from A.I.D./Washington's Office of Financial Management to determine the extent the $8.3 million of unliquidated funds identified in this finding can be decommitted.

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