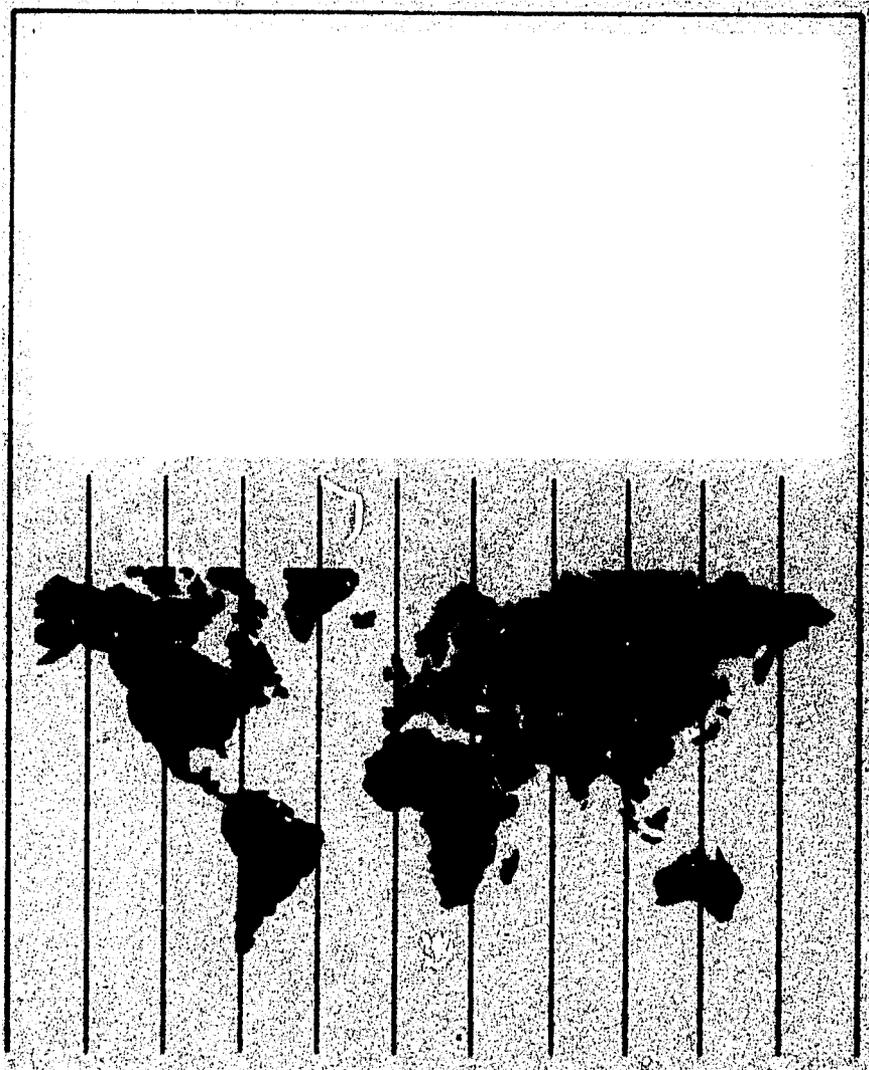


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE
INSPECTOR
GENERAL



Regional Inspector General for Audit
DAKAR

**The Audit of the Conversion
of Foreign Exchange in Liberia**

**CASE NUMBER ONE:
PRIMARY EDUCATION PROJECT
PROJECT NO. 669-0166**

**Audit Report No. 7-669-90-11
July 27, 1990**

AGENCY FOR INTERNATIONAL DEVELOPMENT
Office of the Regional Inspector General for West Africa

July 27, 1990

MEMORANDUM

TO : D/USAID/LIBERIA, AFRICA BUREAU, John Roberts
FROM : ACTING RIG/A/DAKAR, *Larry L. Hoover*
SUBJECT: Audit of the Conversion of Foreign Exchange in Liberia
--Case Number One--

The Primary Education Project
Project No.669-0166

Enclosed are five copies of the subject report. This is the first of three reports issued on this audit. The policy of the Office of the Regional Inspector General is to request and include formal comments from the Mission prior to issuing the final report. In this case, a copy of the draft report was sent to and received by the Mission in Monrovia in the latter part of May.

As you are aware, no formal comments were provided by the Mission staff before they were relocated to Washington in early June. U.S. Government personnel were removed from Monrovia to assure their safety while a civil war is being waged between the incumbent government and another political faction.

While I know that it is not possible to act on the recommendations in the report at this time, I believe it is important that the report be issued because all funds provided to this project (no matter which party occupies the government) will at some point have to be accounted for (refer to recommendation 1 on page 3). Further, since U.S. assistance will probably be continued in the future, action taken in recommendation 2 on page 5 should prevent the same mistakes from occurring in Liberia that occurred in the past.

Both recommendations are considered unresolved and will remain so until you review the report and respond with formal comments. My office is available to work with the Mission to resolve the recommendations. An overall report on the foreign exchange issue involving various modes of assistance will follow later.

Background

The official exchange rate between the U.S. and Liberian dollars is one to one. However, over the last five years, political and economic factors have caused Liberian dollars to become plentiful and U.S. Dollars to become scarce. Thus, a vibrant unofficial parallel market has developed in which one U.S. Dollar now buys about three Liberian dollars. Because of this disparity in exchange rates and the opportunities to manipulate U.S. Dollars

for personal gain, RIG/A/D, as well as the USAID, was concerned about the significant potential for abuse of U.S. assistance dollars.

The Primary Education Project is a five-year, six-million-U.S. Dollar project designed to improve the Ministry of Education's primary education system by training teachers, providing instructional material, and strengthening the capacity of the Bureau of Primary Education to coordinate its activities. We included the Primary Education Project in our audit as part of a sample of projects receiving direct cash contribution from USAID and because USAID had expressed concerns over accountability for the U.S. Dollars provided to Liberian Government project officials.

Because of this concern for potential abuse, USAID sought ways to control the U.S. Dollars it was providing the Project. In 1989, the Ministry of Education, like others not involved with export industries, was facing difficulty obtaining foreign exchange to import the equipment it needed for its operations. So, USAID and the Ministry agreed that the U.S. Dollars from the Project would be used for these purchases in exchange for Liberian Government funding of certain other activities. They cemented the arrangement with Project Implementation Letter (PIL) No. 21.

In 1990, because the gap between the two currencies was widening and the rewards for manipulating the difference were growing, USAID sought to tighten its control over the Project's U.S. Dollars and to obtain more value for them at the same time. So, USAID instituted a cost-sharing mechanism in which it would fund only 38 percent (330,563 U.S. Dollars) of the Project's teacher-training costs while the Government of Liberia would provide the remainder of the funds. This arrangement was detailed in PIL No. 27.

Audit Questions and Summary of Findings

Question and Finding No. 1 Has the Ministry taken the actions it agreed to in Project Implementation Letters number 21 and 27? If not, did the Ministry misuse the U.S. Dollars provided by A.I.D. under these agreements?

Despite several requests from the USAID officials, the Ministry has failed to comply with the requirements of both PIL number 21 and 27. Consequently, 504,356 U.S. Dollars under PIL No. 21. may have been misused. Additionally, 330,563 U.S. Dollars under PIL no. 27 could be misused unless USAID takes further action.

Under PIL No. 21, USAID agreed to give 516,000 U.S. Dollars (actual payment turned out to be 504,356 U.S. Dollars) for the Project to the Ministry which had agreed to provide an equal amount of Liberian dollars for the Project's workshops. Additionally, the Ministry agreed to provide USAID full documentation of its use of the U.S. Dollars. At the time

of our audit--almost one year after receiving the foreign exchange fund from USAID--the Ministry had not provided the promised documentation.

For the 1990 phase of the Project, USAID and the Ministry signed PIL No. 27 in which USAID agreed to provide 330,563 U.S. Dollars for the teacher-training workshops. For their part, the Ministry agreed to pay and account for the total Liberian-dollar costs of the workshops, estimated at 859,463 Liberian dollars.

Not only did the ministry not use the Project's U.S. Dollars as agreed, it even diverted P.L. 480 funds to pay for Project activities.

Although USAID made its contribution to the Project account, the Ministry did not deposit its part. So, in order to pay for the workshops, the Assistant Minister for Primary Education diverted 400,000 Liberian dollars from P.L. 480 local-currency funds that USAID had previously approved for teachers' salaries.

Recommendation No. 1: We recommend that the Director, USAID/Liberia:

- 1.1 Recover from the Government of Liberia the 504,356 U.S. Dollars advanced under PIL No. 21;**
- 1.2 Ensure that the Government account for the expenditure of the 330,563 U.S. Dollars provided under PIL 27 and of the 859,463 Liberian dollars for the Project's 1990 workshops;**
- 1.3 Ensure that the Government replace the 400,000 Liberian dollars it diverted from the P.L. 480 account to fund the 1990 workshops;**
- 1.4 Suspend any further disbursement to the Project until the terms of PILs No. 21 & 27 and the above recommendations are fully met;**

Discussion

The 1989 Workshops: Supporting Off-Shore Procurement Needs

The shortage of foreign currency and maintenance of a totally unrealistic exchange rate in Liberia has made it difficult for everyone--including Liberian Government ministries--to

finance their foreign expenses. Consequently, the Ministry proposed, and USAID accepted, an arrangement whereby the Ministry would provide the Project with Liberian dollars for its 1989 workshops and USAID would give the Ministry an equal amount of U.S. Dollars --at an exchange rate of one to one--which it would use for its foreign purchases. PIL No. 21, signed on January 27, 1989, codified this arrangement.

Under this PIL, USAID/Liberia agreed to pay U.S. Dollars to cover the actual costs of the workshops described in the PIL. For its part, the Ministry agreed to pay the Liberian-dollar expenses for the workshops and provide USAID a copy of its budget, a listing of imported items purchased, and the supporting documentation when requesting reimbursement from USAID.

On June 13, 1989, a U.S. Dollar Treasury check was issued in an amount of 504,356 U.S. Dollars, which was equal to the actual cost of the workshops in Liberian dollars. The Assistant Minister collected the check from the USAID cashier on June 21, 1989 and deposited it into the Project bank account. When we spoke to the Assistant Minister in April 1990 about these transactions, she told us that she wrote a check for this amount of U.S. Dollars to the Minister of Education but she did not know how the money was spent. She added that it was beyond her responsibility to track the Ministry's use of the U.S. Dollars. To date, the Minister of Education has not accounted for those funds.

Nonetheless, the Mission Controller liquidated the advance of these funds to the Project because USAID had received a certified financial report and supporting documentation for expenses of 504,356 Liberian dollars incurred during the workshop. However, since PIL No. 21 also required that the Ministry provide USAID a listing and documentation for what was purchased with the USAID-provided U.S. Dollars, we believe that this liquidation was premature.

The 1990 Workshops: A Cost-Sharing Arrangement

On January 22, 1990, the Ministry and USAID agreed in PIL 27 to provide 528,900 Liberian dollars and 330,000 U.S. Dollars respectively for the 1990 Project workshops. USAID officials reasoned that this approach would give them good value for their money since they would only be paying 38 percent of the project's Liberian-dollar costs. USAID made its contribution to the Project account with a U.S. Dollar Treasury check dated January 31, 1990. However, the Liberian Ministry has, to this date, never deposited its 62 percent share.

We also discussed this issue when we spoke with the Assistant Minister. She stated that the Minister of Education had made the arrangement with USAID and she did not know why the Ministry had not complied with it. At that point, the 1990 workshops were planned and she believed that postponing them would severely hinder the project. So, she diverted 400,000 Liberian dollars from P.L. 480 local currency funds that were intended to pay teachers' salaries to finance the workshops. She reasoned that the training program could not wait; the teachers, on the other hand, were accustomed to being paid late.

Question and Finding No. 2 Has the Mission exercised adequate controls to prevent abuse of the U.S. Dollars provided for the Primary Education Project under PILs 21 and 27?

In taking the actions outlined above, USAID/Liberia officials attempted to deal creatively with the difficult task of trying to limit abuses of and windfalls from direct contributions of U.S. Dollars to the Government for this project. Unfortunately, these control measures were not adequate to prevent probable abuse and did not cause the Government to adhere to their agreements.

USAID needs to exercise additional controls to ensure compliance and limit abuses

The Ministry of Education reneged on two PILs, failed to account for project funds, and diverted P.L. 480 funds. In spite of their attempts to monitor and control project and local currency funds as required by A.I.D. regulations, the responsible USAID officials were not able to prevent these violations; there were not enough control measures in the agreement to ensure that the Government complied.

Recommendation No. 2: We recommend that, as an integral part of any future agreement with the Government of Liberia, the Director, USAID/Liberia:

- 2.1 Treat all conditional arrangements with the Liberian Government as conditions precedent and not make any further U.S. Dollar disbursements unless and until all conditions are met and verified by a USAID official;**
- 2.2 Pay U.S. Dollars directly to suppliers for the Government's procurement instead of giving the money to the ministry officials;**
- 2.3 Perform a review of the Project's bank accounts, books, and records to learn how the Ministry used its funds during the past two years.**
- 2.4 Establish a requirement for periodic reviews of the Project bank accounts, books, and records to learn how the Ministry is using its funds during the remainder of the project;**

- 2.5 **Require that all future disbursements by the Government of Liberia from project accounts be by checks on which is written the purpose for the disbursement; and**
- 2.6 **Use, to the maximum extent possible, private contractors instead of the Government for conducting any future project activities.**

Discussion

In late 1988, the Director of USAID/Liberia recognized the great potential for abuse of A.I.D. assistance Dollars caused by the existence of the parallel currency market. He then sought advice from A.I.D./Washington and the Regional Legal Advisor (RLA) on how the USAID should conduct future operations. In the absence of a substantive response, during the following year, he took several unilateral actions designed to limit abuses and windfalls:

directed USAID project officers and contractors to seek discounts for purchases by using U.S. Dollars;

required that the Ministry use the Project's U.S. Dollars for its urgently-needed foreign procurement in exchange for Liberian dollars for the 1989 workshops;

negotiated partial or shared funding for the 1990 Project's workshops with the Ministry at a rate close to the prevailing parallel rate, and

entered into direct contracts for local services, such as repairing the Project's vehicles, to be paid in U.S. Dollars rather than reimbursing ministry officials for these expenses at a one-to-one rate.

The Director pointed out that these were stop-gap measures designed to address the symptoms rather than the root causes of the real problem. These measures have inherent weaknesses that can be exploited. We agree. The following examples of what we observed show these limitations and illustrate the opportunities for abuse.

The discounts received by USAID, grantees, and contractors were irregular: they were not always available or reflective of the prevailing exchange rate.

Up to the time of the audit, USAID/Liberia had no assurance that the Ministry used 504,356 U.S. Dollars for official foreign exchange needs: this was more than one year after they signed PIL No. 21.

The Ministry did not arrange for the 859,463 Liberian dollars to finance the 1990 Project workshops. Consequently, the Assistant Minister for Primary Education chose to divert 400,000 Liberian dollars from P.L. 480 funds--earmarked for teachers' salaries--to conduct the workshops.

USAID officials did not oversee the Project's U.S. Dollar account closely enough to prevent potential abuse.

Our previous audit work in Liberia, such as our 1989 report on the P.L. 480 program, showed that the Liberian Government has a long-standing record of not fulfilling its agreements with the U.S. Government. Therefore, we believe that minimum care in dealing with the Liberian Government would have necessitated that USAID not hand out U.S. Dollars to the Ministry officials without assurance that the money will be used for intended purposes. While we could not document any actual diversion of U.S. Dollar funds, the refusal of the Ministry to provide the information required by the PIL suggests that the funds may have been misused.

We believe prudent management practices would necessitate that Mission officials institute additional safeguards against misuse, such as requiring the Government's adherence to the conditions of agreements prior to disbursement, and oversee more closely projects' bank accounts and records.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The Office of the Regional Inspector General for Audit/Dakar conducted a performance audit of the conversion of foreign exchange in Liberia to see if abuses of U.S. Assistance Dollars were occurring due to the exchange rate problem there. During our survey USAID officials expressed concerns over accountability for the U.S. Dollars provided to Liberian Government project officials. So during our review, we performed a limited audit of the PEP to answer the following audit questions:

Has the Ministry taken the actions it agreed to in Project Implementation Letters number 21 and 27; if not, did the Ministry misuse the U.S. Dollars provided by A.I.D. under these agreements?

Has the Mission exercised adequate controls to prevent abuse of the U.S. Dollars provided for the Primary Education Project under PILs 21 and 27?

In answering these questions, we tested whether officials of the Liberian Ministry of Education complied with PILs number 21 and 27 and whether USAID/Liberia followed appropriate control procedures over the funds given to the Ministry. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts.

Scope

We reviewed the Liberian Ministry of Education's performance and USAID/Liberia's control procedures related to PILs number 21 and 27 of the PEP in accordance with generally accepted government auditing standards. We conducted this review from February 6 through April 6, 1990 and covered A.I.D.'s direct contribution of U.S. Dollars to the Project in fiscal years 1989 and 1990--about one million dollars or about 17 percent of the total life-of-project cost. As noted below, we conducted our field work in the office of USAID/Liberia, the Ministry, and in the International Trust Company (ITC) in Monrovia.

Methodology

We selected the Project as part of a sample of projects because it represents about 68.5 percent of the 1.85 million USAID U.S. Dollar direct commitment to the host government as of December 31, 1989. This project is also important in that it covers all 13 counties in the country.

To accomplish the audit objective, we determined specifically whether

- (1) A.I.D. transferred the U.S. Dollars to the Ministry as stipulated by PILs No. 21 & 27;
- (2) the Ministry's project manager had properly deposited U.S. Treasury checks into the Project's bank account;
- (3) the Project had transferred 504,356 U.S. Dollars to the Ministry as stipulated in PIL No. 21;
- (4) the Ministry had used these 504,356 U.S. Dollars to import needed equipment;
- (5) the Ministry had arranged for the 859,463 Liberian dollars for the 1990 workshops and had given them to the Project as stipulated in PIL No. 27; and
- (6) the proper amount of dollars was transferred to the appropriate accounts.

We reviewed USAID project files with life-of-project total commitments of 6.239 million U.S. Dollars and interviewed responsible officials within the U.S. Mission, the Liberian Government, and the bank holding the Project's account. We examined correspondence on the use of the funds, program agreements, program implementation letters, contracts, expense reimbursements, and other relevant documents.

We attempted to track the flow of project funds from the U.S. Treasury to final expenditure but we have not received the cancelled checks which we requested from the Treasury and we were not able to obtain copies of the Ministry's project bank statements prior to leaving Monrovia. With the current civil war in Liberia, we believe that it is fruitless to request these documents from the Ministry. Nonetheless, we did discuss the flow and use of funds with the appropriate Government, USAID, and bank officials in order to understand the process and to bring to light actual and potential abuses.

APPENDIX II

MISSION COMMENTS (APPENDIX II) WERE NOT SUBMITTED

REPORT ON INTERNAL CONTROLS

The Office of the Regional Inspector General for Audit/Dakar conducted a performance audit of the conversion of foreign exchange in Liberia to see if abuses of U.S. Assistance Dollars was occurring due to the exchange rate problem there. During our survey USAID officials expressed concerns over accountability for the U.S. Dollars provided to Liberian Government project officials. So during our review, we performed a limited audit of the PEP to answer the following audit question concerning its internal controls:

Has the Mission exercised adequate controls to prevent abuse of the U.S. Dollars provided for the Primary Education Project under PILs 21 and 27?

We limited our review of the Primary Education Project to an examination of USAID/Liberia's control procedures related to Project Implementation Letters Number 21 and 27. We did not conduct an audit of the entire Project. We conducted this review from February 6 to April 6, 1990 in accordance with generally accepted government auditing standards.

As stated in Finding Two, the control measures USAID/Liberia officials instituted were not adequate to prevent misuse of the U.S. Dollars contributed to the Government under Project Implementation Letters Number 21 and 27. Therefore, we recommended specific changes to USAID's control procedures (see page 6).

REPORT ON COMPLIANCE

We limited our review of the Primary Education Project to an examination of the Liberian Ministry of Education's and USAID/Liberia's compliance with the provisions of Project Implementation Letters Number 21 and 27. We limited our test of compliance to these provisions. We did not conduct an audit of the entire Project. We conducted this review from February 6 to April 6, 1990 in accordance with generally accepted government auditing standards.

The results of our tests of compliance disclosed the following significant instances of noncompliance:

The Ministry failed to provide USAID with the documentation to show how it used 504,356 U.S. Dollars as required by PIL number 21.

The Ministry failed to arrange for and provide to the Project the 859,463 Liberian dollars as stipulated in PIL number 27.

The Ministry diverted 400,000 Liberian dollars of P.L. 480 local currency funds intended for teachers' salaries to pay for the Project's 1990 workshops.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Liberia and the Ministry complied, in all significant respects, with the provisions of the applicable PILs. With respect to the items not tested, nothing came to our attention that caused us to believe that USAID/Liberia and the Ministry had not complied, in all significant respects, with those agreements.

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