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THE  
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GENERAL

Regional Inspector General for Audit  
DAKAR

PD-ACC-141

**Audit of Economic Policy Reform Program  
in Guinea**

**Guinea Economic Policy Reform  
Program No 675-0217**

**Economic Policy Reform Support  
Project No 675-0218**

**Audit Report No. 7-675-90-02  
November 23, 1990**

## EXECUTIVE SUMMARY

Started in September 1986, the Economic Policy Reform Program in Guinea was designed to support a series of bold structural reforms initiated by the Government of Guinea (GOG) in order to overcome the ravages of nearly thirty years of financial mismanagement under a socialist regime.

A.I.D. financed two activities, the Guinea Economic Policy Reform Program (GEPRP), and the Economic Policy Reform Support Project (EPRSP) originally authorizing \$10 million and \$2.5 million respectively.

As of April 30, 1990 \$5 million of the \$10 million GEPRP funds was disbursed and the remaining \$5 million was in the process of deobligation because of the GOG's failure to meet key project requirements. In fact, our audit showed that the GOG was never fully committed to the implementation requirements of GEPRP and for almost three years the program remained in limbo over these issues.

In addition, we found that USAID/Guinea and the GOG did not follow A.I.D. policies and procedures for handling local currency funds. This noncompliance not only caused the program to lose an estimated \$3.6 million in interest income and local currency value, but also, a key program objective--extension of credit to rural private enterprises--has not been realized.

Despite the apparent lack of GEPRP's progress and the fact that EPRSP was originally designed to directly support GEPRP, authorized funding for EPRSP was increased to \$8.5 million in 1989. Moreover, although \$6.5 million had been obligated under EPRSP as of April 30, 1990, only \$841,151 in disbursements had been reported since project inception in 1986. These low reported expenditures were caused by USAID/Guinea's failure to (1) implement planned activities and (2) post the disbursements made to a major contractor. As a result, EPRSP's progress has been stagnant and its effectiveness in achieving objectives has been limited.

The audit also showed that financial and contractor monitoring of EPRSP was practically non-existent resulting in an inefficient and poorly coordinated management of project resources. For example \$682,664 charged to A.I.D. by a contractor was not reflected in project accounting records and therefore not monitored. Additionally we identified \$231,053 of technical assistance that did not fully comply with contract terms.

The report contains five recommendations for USAID/Guinea action. It also presents our assessment of internal controls and reports on USAID/Guinea and GOG compliance with applicable laws and regulations.

Office of the Inspector General  
November 23, 1990

*Office of the Inspector General*

## Table of Contents

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	<u>Page</u>
EXECUTIVE SUMMARY	i
INTRODUCTION	1
Background	1
Audit Objectives	3
REPORT OF AUDIT FINDINGS	4
Did GEPRP (Cash Transfer Program) achieve its purpose of supporting the Government of Guinea's structural adjustment program through balance of payments support?	4
Program Planning Was Inadequate	5
Program Grant Agreement Was Deficient	6
What is EPRSP's (Support Project) progress toward providing technical assistance to the Government of Guinea in order to achieve market-oriented reforms?	8
Project Implementation Is Behind Schedule	9
Did USAID/Guinea follow Agency policies and guidelines in disbursing funds from the local currency account established under GEPRP (Cash Transfer Program)	12
USAID/Guinea Did Not Secure Compliance by the GOG With A.I.D. Guidelines for Handling Local Currency Funds	12

## Table of Contents (continued)

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	<u>Page</u>
GOG Did Not Prepare An Acceptable Plan For The Use Of The Credit Fund	14
Did USAID/Guinea establish a system to effectively manage and monitor the implementation of EPRSP (Support Project)?	15
Overall Project Management/ Monitoring Was Inadequate	16
Exhibit 1 Conditions Precedent To GEPRP Disbursement	21
Exhibit 2 GOG Covenants To GEPRP Agreement	22
	<u>Appendix</u>
SCOPE AND METHODOLOGY	I
REPORT ON INTERNAL CONTROLS	II
REPORT ON COMPLIANCE	III
MANAGEMENT COMMENTS AND OUR EVALUATION	IV

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# INTRODUCTION

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## Background

After nearly three decades of mismanagement under a socialist oriented economy, Guinea was on the verge of economic collapse. In 1985, the Government of Guinea (GOG) initiated a series of economic reforms under a structural adjustment program designed to liberalize trade, credit and market policies. The reforms included devaluing currency, abolishing state owned banks and state owned farms, eliminating price controls, removing agricultural marketing controls, and establishing a foreign exchange auction system to allow private traders to buy foreign currency at market rates.

To support these efforts, A.I.D. initiated an \$18.5 million Economic Policy Reform Program in 1986. Its purpose was to provide financial and technical support to the GOG's structural adjustment program with primary emphasis on supporting liberalization policies affecting the agricultural sector. Specifically, policy reforms targeted by this program were:

- unrestricted private sector rights to import, sell and distribute agricultural products and eventually disengage the state from these activities;
- free and open trade in the marketing, purchase, sales and/or export of all crops;
- removal of all government subsidies on sales of agricultural products;
- a comprehensive credit policy, including guidelines for short-, medium- and long-term credit;
- revised commercial and investment codes to facilitate participation of all segments of the private sector.

To help the GOG achieve these policy reforms, A.I.D. financed the following two activities:

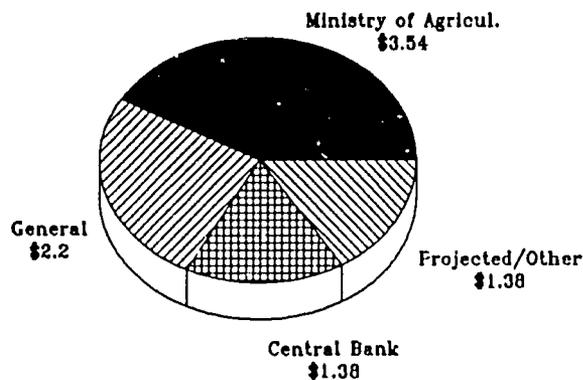
**The Guinea Economic Policy Reform Program (GEPRP):** In August, 1986, A.I.D. authorized a cash transfer of \$10 million to be disbursed in two equal tranches as and when mutually agreed upon reforms were implemented by the GOG. (See Exhibits I and II) In addition to achieving these reforms--as stipulated in the Conditions Precedent and Covenants to the Program Grant Agreement--the GOG agreed to provide: (1) foreign exchange--equal to the dollar disbursements under this grant--to private traders through

a newly established foreign currency auction system, and (2) an equivalent amount of local currency in commercial credit to private traders. The project was to be completed in September, 1988.

**The Economic Policy Reform Support Project (EPRSP):** Authorized in August 1986, A.I.D. provided a \$2.5 million grant for technical assistance, studies and training to key institutions in the areas of marketing, banking, credit and agricultural policy. EPRSP was intended to assist the GOG to fulfill the Conditions Precedent to the GEPRP project and accelerate its economic reforms.

Despite the GOG's lack of progress toward meeting Conditions Precedent under GEPRP and the uncertainty of the future of the GEPRP, an amendment in July 1989 increased the Support Project's funding to \$8.5 million while expanding the scope of activities which could be financed to beyond that of the GEPRP. The amended project purpose was no longer in direct support of GEPRP, but was to assist the GOG's overall economic reform activities by developing, analyzing, implementing and assessing its market-oriented reforms. USAID/Guinea's strategy was to retain the flexibility to finance economic reform activities and also to provide assistance by project management units as shown below. The project is to be completed in September, 1994.

### EPRSP Budget by Management Unit (in millions)



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## **Audit Objectives**

The Office of the Regional Inspector General For Audit/Dakar audited USAID/Guinea's Economic Policy Reform Program to answer the following audit objectives:

1. Did GEPRP (Cash Transfer Program) achieve its purpose of supporting the Government of Guinea's structural adjustment program through balance of payments support?
2. What is EPRSP's (Support Project) progress towards providing technical assistance to the Government of Guinea in order to achieve market-oriented reforms?
3. Did USAID/Guinea follow Agency policies and guidelines in disbursing funds from the local currency account established under GEPRP (Cash Transfer Program)?
4. Did USAID/Guinea establish a system to effectively manage and monitor the implementation of EPRSP (Support Project)?

In answering these audit objectives, we tested whether USAID/Guinea: (a) was following the established A.I.D. internal control procedures and (b) complied with applicable provisions of laws, regulations and agreements.

Our tests were intended to provide reasonable--but not absolute --assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Guinea or the GOG followed A.I.D. procedures and complied with legal requirements.

Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work to:

- conclusively determine that USAID/Guinea or the GOG were not following a procedure or not complying with a legal requirement;
- identify the cause and effect of the problems and make recommendations to correct the condition and cause of the problems.

Appendix I contains a complete discussion of the scope and methodology for this audit.

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## REPORT OF AUDIT FINDINGS

### **Did GEPRP (Cash Transfer Program) achieve its purpose of supporting the Government of Guinea's structural adjustment program through balance of payments support?**

The audit showed that GEPRP was, at best, a marginally successful program that had to be terminated by A.I.D. because of severe implementation problems.

In June 1987, the GOG met the Conditions Precedent to the first disbursement (See Exhibit I) and A.I.D. provided the first of the two tranches of \$5 million in cash transfer. However, release of the second tranche was held up for nearly three years because the GOG was unable to fulfill a Condition Precedent to the second disbursement that required the closing of four parastatals, despite repeated proddings by A.I.D. In fact, we found that the GOG was never fully committed to closing these parastatals. For almost three years the program remained in limbo over this issue. Finally, in March 1990, A.I.D. notified the GOG of its decision to terminate the program and deobligate the remaining earmarked funds of \$5 million.

Furthermore, there was no conclusive evidence whether the first tranche of \$5 million was used by the GOG for the intended purpose of providing balance of payments support to Guinea's structural adjustment program.

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*For almost three years the program remained in limbo... In our opinion, GEPRP's lack of success is attributable to poor planning and faulty program design on the part of A.I.D. Consequently, the program had to be abandoned by A.I.D. after only fifty percent of its authorized funding of \$10 million had been disbursed.*

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In our opinion, GEPRP's lack of success is attributable to poor planning and faulty program design on the part of A.I.D. Consequently, the program had to be abandoned by A.I.D. after only fifty percent of its authorized funding of \$10 million had been disbursed. Discussed below are the principal factors which, we believe, contributed to GEPRP's ultimate collapse.

## **Program Planning Was Inadequate**

A.I.D. Handbook No.4 states that the primary purpose of the Program Grant Agreement is to record basic substantive decisions reached by the host Government and the United States. Fulfilling the Conditions Precedent outlined in the GEPRP Program Grant Agreement was essential to program implementation. Therefore, complete agreement and understanding with the GOG on these conditions was critical to program success.

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*...according to documentation in program files, the GOG did not fully understand its obligations under the Conditions Precedent prior to signing the GEPRP program agreement.*

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However, according to documentation in program files, the GOG did not fully understand its obligations under the Conditions Precedent prior to signing the GEPRP program agreement. This was because crucial negotiations relating to the Conditions Precedent were held by USAID/Guinea not with the responsible GOG officials, but with representatives of the World Bank, the International Monetary Fund and the French advisor to the GOG's Minister of Finance.

Moreover, during the program planning phase, USAID/Guinea requested A.I.D./Washington's approval to revise the Conditions Precedent because the GOG had expressed its reluctance to close the four parastatals. These revisions were not made. Consequently, A.I.D. planned and designed the program without taking into consideration GOG's preferences or their willingness and capability to successfully implement the program.

According to the USAID/Guinea program officer, pressure from A.I.D./Washington to sign the program agreement and obligate funds as well as the GOG's willingness to sign any document that would bring badly needed foreign exchange contributed to this planning deficiency. Moreover, the GEPRP Conditions Precedent were tied to conditionalities of funding commitments from other major donors, such as the International Monetary Fund and the World Bank. USAID/Guinea told us that these donors disbursed funds even though the GOG did not fulfill some key conditions.

Another example of inadequate program planning is found in the program documents. We found confusing and contradictory provisions in two key program documents concerning the time-frame within which the GOG was required to deposit an equivalent amount of local currency after receiving the \$5 million cash transfer from A.I.D. The Program Assistance Approval Document stated the time period as both "simultaneously" and "within six weeks", while the Program Grant Agreement and its Amplified Program Description required a deposit "at the same time as" and "within 60 days" respectively.

We believe these inconsistencies resulted from a lack of coordination between the different A.I.D. officials who prepared and approved these documents. Although this oversight did not directly contribute to the program's failure, it is nevertheless an example of inadequate planning and overall coordination. Had the various program documents been adequately reviewed, this inconsistency would not have occurred.

**Program Grant  
Agreement Was Deficient**

A principal criterion of a program's success is to carefully design its implementation strategy in order to meet its planned objectives. The GEPRP's primary objective of facilitating economic reforms through balance of payments support was to be accomplished by using the foreign exchange auction system. This was to be done by auctioning funds equal to the dollar disbursements provided by A.I.D. to private sector importers through weekly foreign exchange sales conducted at the GOG's Central Bank.

The audit showed that USAID/Guinea was unable to determine whether \$5 million of grant funds were used, as intended, to bridge the balance of payments deficit. A.I.D. transferred \$5 million to a GOG account at the Chemical Bank, New York in June 1987. However, we were unable to trace these funds from New York to their eventual sale in the foreign exchange auction system in Guinea because they were commingled with funds from other donors. Consequently, it is impossible to determine whether program funds were used for their intended purpose.

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*The audit showed that USAID/Guinea was unable to determine whether \$5 million of grant funds were used, as intended, to bridge the balance of payments deficit.*

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This condition occurred because there was no requirement in the Program Grant Agreement for the GOG to provide the Mission with appropriate documentary evidence that A.I.D.'s cash transfer of \$5 million was used by the GOG to provide hard currency to local entrepreneurs through the foreign exchange auction market. To make matters worse, A.I.D. officials took no action although they were aware that the amounts transferred to GOG by A.I.D. would be commingled with other donor funds.

Had USAID/Guinea required the GOG to deposit the cash transfers in restricted bank accounts and provide documentary evidence of their eventual sale in the foreign exchange auction market, there would be considerably greater assurance that program funds were used for their intended purpose.

## Conclusion

In view of the serious implementation problems, we believe that USAID/Guinea's actions to notify Congress of its intent to deobligate the second tranche of \$5 million in April 1990 was entirely justified under the circumstances. However, the money was still obligated as of July 26, 1990. In these times of scarce A.I.D. resources, we believe it is imperative that USAID/Guinea follow through on its intent to deobligate this second tranche, thereby allowing the funds to be put to better use.

**Recommendation No. 1: We recommend that the Director, USAID/Guinea expediently implement the deobligation of the second tranche of \$5 million.**

## Mission's Comments

USAID/Guinea officials asked that Recommendation No. 1 be deleted since deobligation action has been completed as a result of its own "aggressive and decisive action to put these funds to better use" two months before the auditors made their first visit to USAID/Guinea. The officials also stated that they "believe" that the \$5 million disbursement was used as intended citing the "prudent" practice of pooling funds to operate a foreign exchange auction system and the inherent difficulty of monitoring such a system.

## Office Of Inspector General Comments

In our opinion the three years it took USAID/Guinea to make a decision to deobligate the second tranche is not "aggressive and decisive action". As Mission officials themselves pointed out, the GOG was never committed to meeting the Conditions Precedent to the second disbursement. Moreover, USAID/Guinea's initial action to deobligate (April 4, 1990) occurred one month after the date on which RIG/A/Dakar sent notification (March 7, 1990) of its intention to commence the audit on or about April 23, 1990.

Nevertheless, since receiving our draft audit report, the Mission has provided us with AID/W's confirmation that the deobligation took place on August 8, 1990. Based on this evidence Recommendation No. 1 is closed.

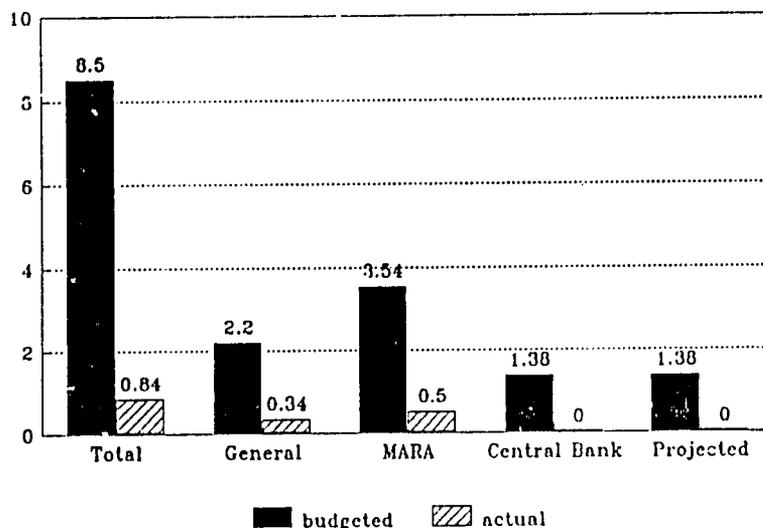
Recent legislation--Section 592(b) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1990-- states that countries receiving dollar cash transfers from the Economic Support Fund (ESF) are required to set up separate accounts for those funds and not commingle them with other funds. This legislation was enacted so that the funds could be monitored and traced to their end use; the "prudent" practice of pooling A.I.D. ESF funds with other donor funds is no longer allowed. In any future ESF grants to the GOG, "believing" that funds went to their intended use will not be adequate to comply with legislation.

**What is EPRSP'S (Support Project) progress towards providing technical assistance to the Government of Guinea in order to achieve market-oriented reforms?**

The audit showed that the EPRSP has not made satisfactory progress although it has almost reached the mid-point stage. Several planned activities have not been initiated, procurement for technical assistance is behind schedule and as of April 30, 1990, only \$841,151 out of A.I.D.'s total authorization of \$8.5 million was reported as spent.

The following graphical presentation shows a comparison of budgeted with actual expenditures for each of the four project components as of April 30, 1990.

(In millions of dollars)



Our review and analysis of the above components showed that, although activities initiated under the "General" and the "Ministry of Agricultural and Animal Resources" (MARA) components are being efficiently implemented, progress in meeting certain targets is behind schedule. For example, the Mission has not yet planned for the use of \$628,640 in General Economic Reform Support funds and \$1,425,072 in MARA funds.

Additionally, the "Central Bank Technical Assistance" and the "Projected/Other" components are totally inactive, four years after project inception. Two long-term technical advisors to assist the GOG Central Bank had not been recruited and \$400,000 budgeted for various technical assistance had not even been contracted.

We believe this situation occurred because of inefficient procurement planning, complex and diverse project requirements, and inadequate Mission staffing. Consequently implementation has been slow and certain planned activities have not been accomplished. Detailed discussions follow.

**Project Implementation  
Is Behind Schedule**

Under the "Central Bank Technical Assistance" component, A.I.D. was to finance \$1.4 million for services of two long-term technical advisors to the GOG for assisting the Guinean Central Bank in establishing regulatory policies, streamlining operations and reducing balance of payment deficits. However, the advisors have not been appointed four years after project inception. According to Mission officials, a lack of coordination with the A.I.D. Regional Contracting Officer in Abidjan and delays by the GOG in establishing a committee to recruit the advisors have held up the appointments. Surprisingly, one GOG official informed us that he was not aware of any required action on the part of the Central Bank to recruit the technical advisors. Consequently, two vital positions are unfilled and the planned technical assistance has not been provided.

The "Projected/Other" component included \$400,000 for technical assistance. As of July 26, 1990 no activities had been either implemented or planned under this category, and the funds are therefore unused. Likewise, as of July 26, 1990, \$1,425,072 of MARA support funds and \$628,640 of General Economic Reform Support funds have not been used nor has the Mission established any plan to utilize the funds.

The EPRSP was required to develop and update a yearly procurement plan establishing the type of technical assistance to be procured, the method of contracting, and the scheduled time-frames for implementation. This plan was critical to successful project implementation given the system of flexible programming to finance "targets of opportunity".

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*Because of USAID/Guinea's failure to implement planned activities, EPRSP's progress has been stagnant and its effectiveness in achieving market-oriented reforms in Guinea has been limited.*

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Although the first procurement plan was to be ready by July 1989, the audit showed that none had been developed because a Project Committee to develop the plan had not been established and required staff had not been hired. For example, project officials did not contract for the budgeted positions of Project Manager and Assistant Manager. According to USAID/Guinea, the lack of activity, was caused by: (a) the changing needs of the project because of its inherent flexibility; (b) the diverse and complex technical management requirements; (c) limited USAID/Guinea staff resources; and (d) frequent turnover of Mission personnel since the project was initiated.

Because of USAID/Guinea's failure to implement planned activities, EPRSP's progress has been stagnant and its effectiveness in achieving market-oriented reforms in Guinea

has been limited. It is therefore imperative that A.I.D. take aggressive action to implement planned activities and contract for required technical assistance without further delay.

**Recommendation No. 2: We recommend that the Director, USAID/Guinea, in coordination with the Government of Guinea (GOG):**

- 2.1 immediately recruit two technical advisors to assist the GOG Central Bank;**
- 2.2 develop a plan for contracting \$400,000 of technical assistance funds from the "Projected/Other" component for specific services to be implemented within established time-frames;**
- 2.3 develop a procurement plan, allocating unused MARA and General Economic Reform funds to specific activities to be implemented within established time-frames;**
- 2.4 identify and deobligate any of the above funds which cannot be allocated to specific activities; and**
- 2.5 recruit an expatriate project manager and a host country project assistant whose services were planned and budgeted under Project/Program Management in the project Grant Agreement.**

**Mission's Comments**

Although the Mission believes that much greater progress has taken place than the audit report suggests, they have initiated actions that will resolve most of Recommendation No. 2. The Mission also believes that there is no difference between Recommendation No. 2.2 and 2.5 and asked that one of the two be deleted. In addition, USAID/Guinea stated that their review of the Amended Project Paper showed that the "Projected/Other" Technical Assistance component was \$350,000 and not \$400,000 as stated in the audit report.

**Office of Inspector General Comments**

To clarify the difference between Recommendation 2.2 and 2.5 and to show that the "Projected/Other" technical assistance component is indeed \$400,000 and not \$350,000, we refer the Mission officials to the "Detailed Project Budget" in Annex D of the Amended Project Paper. Annex D-8 shows total technical assistance for the "Projected/Other" component to be \$400,000. However, Annex D-1 and D-2

"Projected/Other" amounts only add up to \$350,000 since long-term "Projected/Other" technical assistance was left blank on D-1. (Another example of hasty project planning.)

Recommendation 2.2 is for "Projected/Other" Technical Assistance while Recommendation 2.5 is for A.I.D. funds budgeted under Project/Program Management and not Technical Assistance--two very separate element fund control ledgers in the project accounting records.

USAID/Guinea bases its disagreement with the audit finding of lack of progress (See Mission Comments, Appendix IV) on financial statistics as of September 30, 1990--several months after the audit field work began and two months after it ended. As stated in the audit report section titled "Scope and Methodology", the audit field work took place from May 28, 1990 to July 26, 1990 and covered the A.I.D. financed inputs from project inception on September 15, 1986 through March 31, 1990. In our review of project accounting records, we used the latest available (April 30, 1990) financial information on the date the audit field work commenced.

Audit findings and recommendations should not be deleted and/or changed based solely on information from transactions occurring long after audit field work is completed. We will, however, consider Recommendation No. 2 resolved and closed when the following actions take place:

<u>Rec. No.</u>	<u>Resolved</u>	<u>Closed</u>
2.1	Issuance of final report from the technical evaluation committee to REDSO/WCA/RCO	Contracting for technical advisors completed by REDSO/WCA/RCO
2.2, 2.3 and 2.4.	Mission agreement to prepare detailed procurement plan	Completion of detailed procurement plan, deobligating funds that can not be allocated to specific activities
2.5	Recruitment of Project Manager and Assistant Manager positions completed	Contracting for Project Manager and Assistant Manager completed

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**Did USAID/Guinea follow Agency policies and guidelines in disbursing funds from the local currency account established under GEPRP (Cash Transfer Program)?**

The audit showed that neither USAID/Guinea nor the GOG complied with A.I.D. guidelines and the GEPRP Grant Agreement provisions for handling the local currency funds generated by A.I.D.'s cash transfer of \$5,000,000 to the Guinean Central Bank.

A.I.D.'s strategy was to boost private enterprise in rural areas of Guinea by increasing the availability of credit. To match A.I.D.'s cash transfer of \$5 million, the GOG agreed to contribute an equivalent amount in local currency. The Central Bank was to use the local currency to extend credit to commercial banks which would, in turn, lend to private business enterprises.

Before releasing funds from this local currency credit fund, the GOG was required to prepare and obtain A.I.D.'s approval on: (1) a national credit policy and (2) a specific credit plan for the use of the funds, including loan repayment terms and interest rates.

Although the GOG issued a national credit policy that was acceptable to A.I.D., it has not yet prepared a plan for the use of local currency funds three years after program initiation. Consequently, not a penny has been disbursed as credit. Moreover, the idle funds are in a non-interest-bearing account at the GOG Central Bank since July 1987 and their dollar values have declined sharply because of the devaluation of the Guinean Franc by almost fifty percent.

As a result, the key program objective--extension of credit to rural private enterprises--has not been realized. These findings are discussed below.

**USAID/Guinea Did Not Secure  
Compliance by the GOG With A.I.D.  
Guidelines for Handling Local Currency Funds**

A.I.D. guidelines require either prompt disbursement of local currency funds for their intended use, or their deposit into an interest-bearing account when timely disbursement is not possible. Since July 1987, the local currency equivalent of the \$5 million of A.I.D.'s cash transfer has been idle in a non-interest-bearing account at the Guinean Central Bank because USAID/Guinea did not require the GOG to deposit the money in an interest-bearing account in compliance with A.I.D. guidelines. Not only did the project lose an estimated \$1.9 million in interest income, but the dollar value of the account also declined sharply by \$1.7 million because of the devaluation of the Guinean Franc. As a result, the program lost a significant amount of working capital to the tune of \$3.6 million.

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*Not only did the program lose an estimated \$1.9 million in interest income, but the dollar value of the account also declined sharply by \$1.7 million because of the devaluation of the Guinean Franc. ...Failure by USAID/Guinea to comply with A.I.D. guidelines has proved very costly in this case.*

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A.I.D.'s guidelines on handling local currency generated from its Economic Support Funds state that the funds should be "disbursed as quickly as is consistent with sound programming". In cases where unavoidable delays occur, the guidelines require A.I.D. to deposit the funds in an interest-bearing bank account.

This guidance also stipulates that any deviation from this policy should be justified by the highest A.I.D. official at post and reasons for this determination should be sent to the responsible A.I.D. Assistant Administrator and the Bureau for Program and Policy Coordination. We did not find any evidence of USAID/Guinea's compliance with the above guidelines.

During the audit, we recommended in writing that USAID/Guinea take immediate action to negotiate with the GOG for a transfer of the local currency funds to an interest-bearing account. In response, the USAID/Guinea Director stated that such action by the GOG may not constitute sound monetary policy because of its potential inflationary effects on the local economy, should there be no demand for the local currency funds.

We do not concur with USAID/Guinea's position because the local currency fund was established to provide a source of capital and encourage private sector participation in the Guinean economy. In any case, USAID/Guinea should have at least prepared a justification for not following the interest-bearing account preference, as required by A.I.D. guidelines. This was not done.

Failure by USAID/Guinea to comply with A.I.D. guidelines has proved very costly in this case. For example, the local currency equivalent of \$5,000,000--which was transferred to GOG by A.I.D.--would have earned the equivalent of \$1.9 million in interest through July 26, 1990 (end of audit field work) had it been deposited in an interest-bearing account on November 1, 1987. At the current interest rate of 21% per year in Guinea, these funds could be earning the equivalent of \$56,171 in monthly interest. In light of the difficulties encountered in the disbursement of the local currency credit fund (discussed below), we believe that prompt transfer of this fund into an interest-bearing account is imperative to prevent further loss of project funds.

**Recommendation No. 3: We recommend that the Director, USAID/Guinea, immediately require the Government of Guinea to deposit the local currency equivalent of A.I.D.'s cash transfer of \$5 million in an interest bearing account.**

### Mission's Comments

USAID/Guinea officials concurred with the finding and stated that they had already met with the Governor of the Central Bank on October 19, 1990 to engage in preliminary discussions regarding the local currency credit funds. They added that the policies and procedures related to establishing interest-bearing accounts were new to the GOG and a lengthy negotiation time period of approximately six months was anticipated.

### Office of Inspector General Comments

In our opinion, the deposit of the local currency funds into an interest-bearing account should not require six months of negotiations--either the GOG intends to comply with A.I.D. guidelines or it does not. The A.I.D. guideline requiring the deposit of local currency funds into an interest-bearing account is intended to be a temporary measure against inflation and losses from inactivity when such funds are not expected to be disbursed in a timely manner. Nearly three and one-half years have passed since the local currency account was established.

Recommendation No. 3 will be considered resolved when USAID/Guinea formally requests through a Project Implementation Letter that the GOG deposits the local currency into an interest-bearing account until a plan for the use of the funds is agreed upon. Upon deposit of the funds into such account this recommendation will be closed.

### GOG Did Not Prepare An Acceptable Plan for the Use of the Credit Fund

The GEPRP Grant Agreement required the Guinean Central Bank to prepare a plan--to be approved by A.I.D.--for the use of the local currency line of credit to commercial banks. Article 5, Section 5.1 of the GEPRP Grant Agreement stated that:

"A.I.D. and the Grantee agree that funds deposited in the special account shall be used to provide credit funds to each of four participating private commercial banks,.... These banks will, in turn extend credit to private borrowers for all potential productive endeavors except housing in Conakry, during the first twelve to eighteen months of this Program. These purposes will be reviewed after this period and changed if necessary."

In May, 1988--nearly a year after establishing the local currency account--Central Bank officials submitted a credit plan to the Mission. The plan proposed establishing a loan guarantee fund and limiting access to credit to the agricultural sector and small- and medium-sized enterprises only. USAID/Guinea quite justifiably did not accept this proposal because, by excluding all but two sectors of the Guinea economy from access to credit, the plan was contrary to the intent and spirit of the GEPRP.

Mission officials informed us that, after this plan was aborted, they continued to negotiate with the GOG for a mutually acceptable credit plan but have still not reached any agreement. However, we found no evidence of any such negotiation since April 1989. Also, GOG officials were unable to confirm whether any negotiations took place since their original plan was aborted.

Consequently, four years after project inception, not a penny has been disbursed as credit and the GEPRP has not realized one of its key objectives--extension of credit to private enterprises in Guinea.

**Recommendation No. 4: We recommend that the Director, USAID/Guinea:**

- 4.1 take immediate action to negotiate with the Government of Guinea a plan for the use of local currency credit funds by December 31, 1990; and**
- 4.2 if no agreement can be reached by the above date, negotiate with the Government of Guinea to allocate the idle funds to other project activities.**

**Mission's Comments**

USAID/Guinea officials concurred with the finding stating that preliminary discussions with the GOG have already taken place. They added that they were confident that an agreement will be reached with the GOG by March 31, 1991.

**Office of Inspector General Comments**

Based on the comments received from the Mission, Recommendation No. 4 is considered resolved. When a plan is established and operational for the use of the local currency funds, Recommendation No. 4 will be closed.

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**Did USAID/Guinea establish a system to effectively manage and monitor the implementation of EPRSP (Support Project)?**

The audit showed that, while USAID/Guinea had designed a system to monitor the implementation of EPRSP, this system was not in use. As a result, the Mission was unable to:

- gather timely information on inputs, outputs and actions which were critical to project success;
- ensure timely and coordinated provision of A.I.D. financing;
- identify implementation problems; and

- assure that A.I.D.-financed services were utilized effectively to produce the intended benefits.

Detailed discussions of these deficiencies follow.

### **Overall Project Management/ Monitoring Was Inadequate**

Even though the USAID/Guinea Project Development and Implementation officer (PDI) was responsible for overall project management, responsibility for the majority of the technical assistance and studies was entrusted to the Mission's Program Office (PRM). In fact, PDI was only managing one of the two long-term technical assistance contractors and had virtually no knowledge of the rest of the project. Therefore, there was no efficient and well coordinated management of project resources. This situation occurred because the project implementation plan was not followed. Specifically, the Mission did not:

- establish a project committee;
- follow A.I.D. financial monitoring procedures; and
- follow A.I.D. contractor monitoring procedures.

A.I.D. Handbook No. 3 states that the Mission Director is responsible for assigning project administration and implementation duties to different offices and individuals within the Mission and to supervise the performance of such duties. While Mission Directors have considerable latitude in organizing their staff, a project officer--responsible for ensuring that all necessary actions are taken when required--should be assigned to each project.

Such assignment of responsibilities ensures that the Project Officer becomes rapidly knowledgeable about the project and efficiently coordinates activities and resources to achieve effective project implementation. Therefore, the primary responsibility for monitoring a project lies with the Project Officer assigned by the Mission Director. A.I.D. policy defines this monitoring requirement as being concerned with critical steps in project implementation and influencing their successful accomplishment.

Considering the range of expertise which may be needed to implement the project, the Project Officer should request assistance from the project committee. As chairperson of this committee, the Project Officer should select committee members who have the required expertise. When this expertise is not available in the Mission, the Project Officer should seek assistance from the cognizant A.I.D. geographic bureau. Additionally, the EPRSP implementation plan called for the establishment of a project committee. However, no such committee was established.

In evaluating the implementation of this project, we found several instances of inadequate monitoring which are discussed below.

**Financial Monitoring:** A.I.D. Handbook 3 states that it is the joint responsibility of the Mission's Project Officer and Controller to establish and maintain project accounting records. Such records--when maintained on a timely and accurate basis--are important sources of information for monitoring project implementation. The EPRSP Project Paper, had provided for a computerized financial tracking system in order to secure essential sources of monitoring information. The audit showed that this system was not in use. As a result, several significant expenditures were not adequately monitored.

For example, although long-term technical assistance by Cornell University under a \$1.2 million agreement with A.I.D. was being implemented in Guinea for over a year, the project accounting records did not show that \$1.2 million had been committed to Cornell University or that any expenditures had been incurred. However, it was from Cornell University and not from A.I.D. that we were able to obtain the information that \$682,664 was charged by the contractor as of April, 1990.

The reason A.I.D. accounting records did not reflect the above expenditures, is that USAID/Guinea did not have a copy of the Cornell University contract in its files. Without this document, USAID/Guinea was unable to take appropriate action to commit the \$1.2 million earmarked for this technical assistance. In addition, the Project Officer did not receive the required monthly financial reports from Cornell University's home office in the United States that would have enabled her to monitor contractor expenses.

We believe that had the necessary financial controls been in place, the Project Officer would have discovered this situation and taken appropriate corrective action. During the audit, the oversight was brought to the attention of the Project Officer and Controller and they located the commitment document and updated the accounting records to include the unrecorded expenditures.

**Contractor Monitoring:** The A.I.D. Project Officer's Guidebook contains guidelines for monitoring compliance by A.I.D. contractors with provisions of their contract agreements. Among other things, the Guidebook states that A.I.D. Project Officers should maintain a completely documented and current operational file which records contract accomplishments, facilitates the task of monitoring contractor performance, and provides continuity in the event of the Project Officer's reassignment.

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*We identified \$231,053 of technical assistance that either did not comply with the scope of work or did not submit the required reports documenting the results of technical studies.*

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The audit showed that the above guidelines were not followed by USAID/Guinea project officials. Operational contract files did not include important documents such as copies of contracts, and provided no information whether contract services were performed. We identified expenditures totaling \$231,053 in technical assistance that either did not comply with the scope of work or did not submit the required reports documenting the results of technical studies.

For example, even though the Mission did not believe the contractor's report complied with the scope of work outlined in the contract, \$123,296 was paid to Robert Nathan & Associates for a Rural Finance Study. Also, amounts totaling \$107,757 were paid to five contractors who did not submit to the Mission all of the reports required under their contracts.

Based on our audit, we conclude that implementation of EPRSP was inadequate and monitoring was practically non-existent. According to USAID/Guinea officials, this situation occurred due to: (a) the inherent flexibility of the project against the backdrop of a dynamic Guinean economy; (b) the complex and diverse technical management requirements; (c) limited USAID/Guinea staff resources; and (d) frequent turnover of Mission personnel during the project's life.

While we recognize the difficulties and frustrations resulting from the Mission's staffing problems, we nevertheless believe that USAID/Guinea would have been able to effectively monitor the project had they followed the implementation plan and A.I.D.'s guidelines on project management.

**Recommendation No. 5: We recommend that the Director, USAID/Guinea:**

- 5.1 require designated Mission officials to assume full responsibility for monitoring project implementation;**
- 5.2 establish a Project Committee to ensure that project implementation actions are carried out on a timely basis by the best qualified Mission personnel;**
- 5.3 implement a financial monitoring system that will track obligations and expenditures by project management unit; and**
- 5.4 review the propriety of payment of \$231,053 for contractual services that were not satisfactorily performed and take appropriate corrective actions.**

**Mission's Comments**

Mission officials generally agreed that this recommendation would be helpful to project management. They have already provided evidence that Recommendation Nos. 5.1, 5.2

and 5.4 have been implemented. In response to Recommendation 5.3, the officials noted that the Project Manager and Assistant Manager, who are in the process of being hired, will be responsible for implementing a financial monitoring system.

In response to the finding concerning financial monitoring, the Mission officials also noted that the Project Officer and Controller were aware of the missing commitment document and had on several occasions since mid-1989 requested a copy of the document from A.I.D./W.

### **Office of Inspector General Comments**

Based on the comments received from the Mission, Recommendation Nos. 5.1 and 5.2 are closed. Recommendation No. 5.4 is considered resolved and will be closed when the Mission receives the required reports from technical assistance contractors.

Since Recommendation No. 5.3 depends on the implementation of Recommendation No. 2.5, it can not be closed until the project manager and Assistant Manager have been hired and begin implementing the financial monitoring system. Recommendation No. 5.3 is considered resolved.

Concerning the Mission's Comments regarding the finding on financial monitoring, we did not find any evidence supporting the Mission's assertion that several attempts to request the commitment document from A.I.D./W had been made. Also we did not find any evidence that the Project Officer and Controller were monitoring the contractor's expenses from the reports that were readily available from the contractor's chief of party.

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**Conditions Precedent to GEPRP Disbursements**

First Disbursement

Before the disbursement of the first tranche of funds (five million dollars), the Grantee will:

- show evidence that the commercial banks have agreed to participate in a private sector credit program financed by the Special Local Currency Account established in the Central Bank;
- open a special account in the Central Bank and agree in writing to deposit the local currency equivalent of the dollars provided in the first tranche at the time the dollars are made available;
- show evidence that agricultural products sold by state enterprises will be priced at import-parity or above;
- submit a time-phased plan for the disengagement of the state from the sale and distribution of all agricultural products including fertilizer, seed, agricultural equipment and machinery.

Second Disbursement

Prior to disbursement of the second tranche of funds (five million dollars), the Grantee will:

- issue revised commercial and investment codes which eliminate inconsistencies between the codes and assure full equity to all segments of the private sector participating in the national economy;
- eliminate all parastatals engaged in the import and distribution of agricultural production inputs, AGRIMA and SEMAPE, and the export of cash crops, PROSECO and FRUITEX;
- announce its time-table for eliminating policy of establishing official producer and consumer prices;
- show evidence that it has not allowed the release of any funds from the special local currency account until a comprehensive credit policy, acceptable to AID, is formally issued.

**Covenants to the GEPRP Agreement**

The Grantee covenants to:

- provide to the Central Bank of Guinea for sale at its weekly foreign exchange auctions an amount of foreign exchange equal to the Dollar disbursements under this Grant;
- establish a Special Local Currency Account in the Central Bank of Guinea and deposit therein in Guinean local currency an amount equal to the dollar disbursements made under this Grant--such deposits are to be made simultaneously with each disbursement of U.S. Dollars to the GOG;
- Maintain a program for publicizing the regulatory and administrative changes agreed upon herein that are of interest to the business community, e.g. the adoption of a comprehensive credit policy, the adoption of the Tax and Customs Code, and the availability of loans to private entrepreneurs from the Special Local Currency Account;
- not reverse, discontinue, or otherwise impede any action taken in satisfaction of any condition precedent to the initial or second disbursement under this Grant, except as the parties may otherwise agree in writing;
- prohibit release of any funds from the special local currency account until a comprehensive credit policy, acceptable to AID, is formally issued.

**SCOPE AND  
METHODOLOGY**

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**Scope**

We audited the Economic Policy Reform Program In Guinea in accordance with generally accepted government auditing standards. We conducted the audit from May 28 to July 26, 1990 and covered the systems and procedures relating to project inputs financed by A.I.D. from September 15, 1986 (project inception) through March 31, 1990. As noted below, we conducted our field work in the offices of: USAID/Guinea, the GOG Ministry of Agriculture and Animal Resources, the Central Bank of the Republic of Guinea, the Cornell University and National Association of Schools of Public Affairs and Administration (NASPAA) long-term technical assistants, all of which were located in Conakry, Guinea.

The audit did not cover the accounting for all expenditures incurred under the two long-term technical assistance contractors--Cornell University and NASPAA. Both of these contracts were buy-in's to cooperative agreements managed by A.I.D./Washington and the related documents and records are located in the United States.

To perform various tests of the project accounting records we requested documents from USAID/Guinea's official accounting station in REDSO/Abidjan.

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**Methodology**

The methodology for each audit objective follows.

**Audit Objectives One and Two**

The first two audit objectives consisted of gathering and verifying information to determine the status of the two projects (GEPRP and EPRSP). We relied primarily on USAID/Guinea project files and financial records concerning the program's and project's

implementation and the GOG's meeting of the Conditions Precedent. Also, interviews were held with cognizant USAID/Guinea, Central Bank, and contract personnel.

### Audit Objective Three

To accomplish the third audit objective, we (1) examined reports concerning the progress of the local currency credit program, (2) verified the existence of the related local currency account at the Central Bank, (3) interviewed Central Bank officials, and (4) held discussions with the Mission Director and Project Officer.

### Audit Objective Four

To accomplish the fourth audit objective, we ascertained whether the project management system was adequate to perform required functions and determined whether significant weaknesses in the project management system prevented the Mission from:

- identifying implementation problems;
- ensuring timely and coordinated provision of A.I.D. financing;
- assuring that A.I.D.-financed services were utilized effectively to produce the intended benefits;
- gathering timely information on inputs, outputs, and actions which were critical to project success.

To accomplish the above, we determined whether the Mission followed A.I.D. monitoring guidelines outlined in Handbook No. 3 by (1) analyzing audit findings to identify management weaknesses, (2) reviewing implementation reports to see if problems were identified and actions followed, (3) verifying whether or not the Mission was receiving and using information provided in contractor implementation and financial reports.

**REPORT ON  
INTERNAL CONTROLS**

We audited the Economic Policy Reform Program In Guinea for the period September 15, 1986 through March 31, 1990, and have issued our report thereon dated November 23, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives; and
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing the audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer each of the four audit objectives and not to provide assurance on the internal control structure.

The management of A.I.D., including USAID/Guinea, is responsible for maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (The Integrity Act) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office (GAO) has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies;

resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in condition may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have classified significant internal control policies and procedures applicable to each of the audit objectives by categories. For each category, we obtained an understanding of the relevant policies and procedures and determined whether they have been placed in operation--and we assessed the control risk. In doing this work, we found certain problems that we consider reportable under standards established by the Comptroller General of the United States. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect USAID/Guinea's ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

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### **Audit Objective One**

The first audit objective was to gather and verify information concerning the progress and eventual deobligation by A.I.D. of \$5 million in Economic Support Funds under GEPRP. The sources of this information included USAID/Guinea financial and progress reports and interviews with USAID/Guinea personnel and GOG Central Bank officials. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 4. For the purposes of this report, we have classified the relevant policies and procedures into the following categories: agreement negotiation, conditions precedent and covenants, implementation and evaluation.

We noted three reportable conditions:

- Inadequate Program Grant Agreement and effective negotiation by A.I.D. contributed to the GOG's failure to meet all of the Conditions Precedent;
- USAID/Guinea was unable to determine whether the first tranche of \$5 million disbursed by A.I.D. to the GOG was used as intended to bridge the balance of payments deficit due to a deficient project design;
- Hasty Mission planning and pressure from A.I.D./Washington to obligate and disburse project funds led to inconsistent and confusing language in various project documents.

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## **Audit Objective Two**

The second audit objective was to gather and verify information concerning EPRSP's progress. The sources of this information included USAID/Guinea financial and progress reports and interviews with Mission personnel as well as technical assistance contractors. For this objective, the categories of applicable internal controls and the reportable problems are covered under audit objective four.

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## **Audit Objective Three**

This objective relates to the Mission's compliance with the policies and procedures for handling local currency funds. In planning and performing our audit of this area, we considered A.I.D. Policy Determination No. 5 and the Supplemental Guidance issued thereon.

We noted two reportable conditions:

- USAID/Guinea and the GOG did not follow A.I.D. policies for handling local currency accounts;
- The GOG did not prepare an approved plan for use of the local currency project funds.

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## **Audit Objective Four**

This objective relates to USAID/Guinea's oversight of EPRSP. In planning and performing our audit of this area, we considered the relevant internal control policies and procedures cited in A.I.D. Handbook 3. For the purposes of this report, we have classified the relevant policies and procedures into the following categories: project management process, project implementation process, financial monitoring process, and contractor monitoring process.

We noted three reportable conditions. USAID/Guinea did not:

- implement a financial monitoring system;
- adequately monitor contractor performance; and
- establish a project management committee, with assigned management responsibilities to follow the project implementation plan.

A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on projects funds being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described under audit objectives numbered one, two, three, and four are material weaknesses.

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**REPORT ON  
COMPLIANCE**

We audited the Economic Policy Reform Program In Guinea for the period September 15, 1986 through March 31, 1990 and have issued our report thereon dated November 23, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively and reliably answer the audit objectives. Those standards also require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives); and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grant and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement is not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with laws, regulations, contracts and grants applicable to the Project is the overall responsibility of USAID/Guinea's management. As part of fairly, objectively and reliably answering the audit objectives, we performed tests of USAID/Guinea, grantee and contractor compliance with certain provisions of Federal laws and regulations, grants and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

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

- Audit Objective No. 1 - The GOG did not fulfill all of the Conditions Precedent to disbursement of the second tranche under GEPRP.
- Audit Objective No. 3 - The GOG did not prepare an acceptable plan for the use of the credit fund as required in the Program Grant Agreement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Guinea, the grantee and the contractors complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/Guinea, the grantee and the contractors had not complied, in all significant respects, with those provisions.

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ACTION: AID INFO: AMB DCM RIG ECON

APPENDIX IV

VZCZCDK0358  
 RR RUEHDK  
 DE RUTARY #4847/01 3021624  
 ZNR UUUUU ZZH  
 R 291624Z OCT 90  
 FM AMEMBASSY CONAKRY  
 TO AMEMBASSY DAKAR 0499

LOC: 284  
 30 OCT 90  
 CN: 61968  
 CHRG: AID  
 DIST: AID

BT  
 UNCLAS SECTION 01 OF 06 CONAKRY 04847

AIDAC

EO 12356: N/A  
 SUBJ: DRAFT AUDIT REPORT ON ECONOMIC POLICY REFORM  
 PROGRAM IN GUINEA: PROJECT NOS. 675-0217 AND 0218

REF: (A) CONAKRY 4322, (B) DAKAR 10389

1. SUMMARY: THE MISSION AGREES THAT SOME OF THE OBSERVATIONS AND RECOMMENDATIONS ARE HELPFUL TO MANAGEMENT. HOWEVER, USAID BELIEVES THAT MUCH GREATER PROGRESS HAS TAKEN PLACE THAN AUDIT REPORT SUGGESTS. FOR EXAMPLE, (A) THE RECOMMENDED DEOBLIGATION OF DOLS 5 MILLION BEFORE THE AUDIT WAS INITIATED; (B) THE MISSION, THROUGH REDSO'S RCO, IS IN THE PROCESS OF NEGOTIATING THE CONTRACT FOR THE LONG-TERM TECHNICAL ADVISORS TO THE CENTRAL BANK; AND (C) CONSIDERABLY MORE EXPENDITURES HAVE BEEN INCURRED THAN THE AMOUNTS REGISTERED IN THE DRAFT REPORT. THE DETAILS SUPPORTING OUR POSITION APPEAR IN THE FOLLOWING TEXT.

## 2. DRAFT RECOMMENDATIONS

RECOMMENDATION NO.1: USAID/GUINEA EXPEDIENTLY IMPLEMENT THE DEOBLIGATION OF THE SECOND TRANCHE OF DOLS 5 MILLION

RESPONSE: FOR CLARIFICATION, THE MISSION ON APRIL 4, 1990 (CONAKRY 1605) REQUESTED THAT AID/W DEOBLIGATE THE SECOND TRANCHE OF DOLS 5 MILLION. AID/W CONFIRMED THAT DOLS 5 MILLION WAS DEOBLIGATED ON AUGUST 8, 1990 (STATE 265173). PLEASE BE ADVISED THAT MISSION, THROUGH ITS OWN OVERSIGHT AND MANAGEMENT PROCESS, TOOK AGGRESSIVE AND DECISIVE ACTION TO PUT THESE FUNDS TO BETTER USE BY REQUESTING THE DEOBLIGATION OF THESE FUNDS IN APRIL, SOME TWO MONTHS BEFORE THE AUDITORS BEGAN THE AUDIT. SINCE DEOBLIGATION ACTION IS COMPLETED, MISSION REQUESTS THAT THIS RECOMMENDATION BE DELETED FROM THE AUDIT REPORT.  
 RECOMMENDATION NO. 2:

A. IMMEDIATELY RECRUIT TWO TECHNICAL ADVISORS TO ASSIST THE GOG CENTRAL BANK.

RESPONSE: THE MISSION HAS TAKEN THE FOLLOWING STEPS TO OBTAIN THE SERVICES OF TECHNICAL ADVISORS (BALANCE OF PAYMENT STATISTICIAN AND BANK REGULATOR) FOR THE CENTRAL BANK: (1) AN RFP HAS BEEN ISSUED AND RESPONDED TO, AND

(2) THE MISSION TECHNICAL EVALUATION COMMITTEE HAS COMPLETED ITS INITIAL REVIEW AND IS CURRENTLY FINALIZING ITS REPORT TO BE SENT TO REDSO/WCA/RCO. MISSION EXPECTS THE ARRIVAL OF LONG-TERM ADVISORS BY 6/30/91. IN THE INTERIM, MISSION IS IN THE PROCESS OF ACQUIRING SHORT-TERM TECHNICAL ADVISOR AS A STOP-GAP MEASURE. THIS SHORT-TERM ADVISOR WILL BE ON-BOARD BY 12/31/90. SINCE THESE MEASURES HAVE ALREADY BEEN TAKEN, AND WERE INITIATED BEFORE THE AUDIT TOOK PLACE, MISSION REQUESTS THAT THIS RECOMMENDATION BE DELETED FROM THE AUDIT REPORT.

B. DEVELOP A PLAN FOR CONTRACTING DOLS 400,000 OF TECHNICAL ASSISTANCE FUNDS FOR SPECIFIC SERVICES TO BE IMPLEMENTED WITHIN ESTABLISHED TIME FRAMES.

RESPONSE: MISSION IS IN ACTIVE DIALOGUE WITH HOST COUNTRY COUNTERPARTS TO ACCELERATE IMPLEMENTATION OF ALL PROJECT COMPONENTS, ESPECIALLY THOSE RELATED TO THE CENTRAL BANK. AS NOTED IN 2.A, ABOVE, CONCRETE STEPS HAVE BEEN TAKEN TO OBTAIN SERVICES OF LONG-TERM TECHNICAL ASSISTANCE. IN A MEETING BETWEEN MISSION DIRECTOR AND THE GOVERNOR OF THE CENTRAL BANK (ON OCTOBER 19, 1990) AN AGREEMENT WAS REACHED ON THE ESTABLISHMENT OF A WORKING GROUP TO FACILITATE EFFICIENT PROJECT IMPLEMENTATION. A PRIORITY ITEM ON THE BILATERAL ARRANGEMENT IS INTERNAL REPROGRAMMING OF VARIOUS FACETS OF THE PROJECT AS THEY RELATE TO ASSISTANCE TO THE CENTRAL BANK. MISSION ESTIMATES THAT THE REPROGRAMMING EXERCISE WILL BE COMPLETED BY DECEMBER 31, 1990. RECRUITMENT OF THE EXPATRIATE PROJECT MANAGER AND THE HOST COUNTRY PROJECT ASSISTANT WILL BEGIN IN NOVEMBER, 1990. MISSION EXPECTS EXPATRIATE MANAGER AND THE HOST COUNTRY PROJECT ASSISTANT TO BE ON BOARD BY MARCH 31, 1991. OBVIOUSLY, THE REPROGRAMMING EXERCISE INCLUDES A REVIEW OF, AND ADJUSTMENTS TO, THE PROJECT BUDGET. THE APPROPRIATE FISCAL REVISIONS WILL BE CONCLUDED COTERMINOUSLY WITH THE REPROGRAMMING -- I.E., BY DECEMBER 31, 1990.

C. DEVELOP A PROCUREMENT PLAN, ALLOCATING DOLS 1,425,072 AND DOLS 628,640 IN UNUSED MARA AND GENERAL ECONOMIC REFORM FUNDS TO SPECIFIC ACTIVITIES TO BE IMPLEMENTED WITHIN ESTABLISHED TIME FRAMES.

RESPONSE: AS STATED ABOVE MISSION IS IN PROCESS OF REVIEWING STATUS OF ALL ELEMENTS OF THE PROJECT. A REVISED PROCUREMENT PLAN FOR UNUSED FINANCIAL RESOURCES WILL BE A PART OF THIS EXERCISE WHICH, WE REPEAT THE MISSION WILL CONDUCT BY DECEMBER 31, 1990. MOREOVER, WITH RESPECT TO THE MARA COMPONENT OF THE PROJECT, THE MISSION WILL CARRY OUT, IN THE FEBRUARY-MARCH 1991 PERIOD, A REGULARLY SCHEDULED EVALUATION. THIS ASSESSMENT WILL DETERMINE PROGRESS TO DATE AND WILL SERVE TO HELP THE MISSION DETERMINE THE TYPE AND DURATION OF FUTURE ASSISTANCE TO THE MINISTRY OF AGRICULTURE.

D. IDENTIFY AND DEOBLIGATE ANY OF THE ABOVE FUNDS WHICH CANNOT BE ALLOCATED TO SPECIFIC ACTIVITIES.

RESPONSE: GIVEN ON-GOING REPROGRAMMING DIALOGUE WITH GOG, MISSION IS CONFIDENT THAT ALL UNEXPENDED PROJECT FUNDS WILL BE FULLY AND EFFICIENTLY UTILIZED.

E. RECRUIT AN EXPATRIATE PROJECT MANAGER AND A HOST COUNTRY PROJECT ASSISTANT WHOSE SERVICES WERE PLANNED AND BUDGETED UNDER THE PROJECT GRANT AGREEMENT.

RESPONSE: USAID FAILS TO SEE THE DISTINCTION BETWEEN THIS RECOMMENDATION AND RECOMMENDATION 2.B. WE SUGGEST THAT ONE OF TWO BE ELIMINATED. NEVERTHELESS, WE REPEAT THAT WE ARE IN THE PROCESS OF RECRUITING THE SERVICES OF AN EXPATRIATE PROJECT MANAGER AND A HOST COUNTRY PROJECT ASSISTANT. RECRUITMENT IS BEING CONDUCTED IN FULL COMPLIANCE WITH ESTABLISHED AGENCY PROCEDURES GOVERNING COMPETITION. WE EXPECT TO ADVERTISE THE POSITION BY NOVEMBER 30, 1990 AND ANTICIPATE THAT THE CONTRACTORS WILL BE ON BOARD BY MARCH 31, 1991.

RECOMMENDATION NO.3: IMMEDIATELY REQUIRE THE GOG TO DEPOSIT THE LOCAL CURRENCY EQUIVALENT TO A.I.D.'S CASH TRANSFER OF DOLS 5 MILLION IN AN INTEREST BEARING ACCOUNT.  
RESPONSE: AS NOTED ABOVE, MISSION DIRECTOR AND STAFF MET WITH THE GOVERNOR OF THE CENTRAL BANK ON OCTOBER 19, 1990 TO ENGAGE IN PRELIMINARY DISCUSSION OF THIS ISSUE. IT WAS AGREED THAT THERE WILL BE SUBSEQUENT MEETINGS, THE NEXT ONE TO TAKE PLACE IN EARLY NOVEMBER BETWEEN USAID/GUINEA AND APPROPRIATE GOG OFFICIALS TO RESOLVE THIS ISSUE. THE DATE OF RESOLUTION IS A FUNCTION OF PROGRESS OF NEGOTIATION. POLICIES AND PROCEDURES RELATED TO ESTABLISHING SUCH ACCOUNT IS NEW TO THE GOG AND THEREFORE CONSIDERABLE TIME WILL BE REQUIRED FOR IT TO BE INCORPORATED INTO THE FINANCIAL STRUCTURE. ACCORDINGLY, MISSION ANTICIPATES LENGTHY TIME (APPROXIMATELY 6 MONTHS) TO RESOLVE THIS ISSUE.

RECOMMENDATION NO. 4:

A. TAKE IMMEDIATE ACTION TO NEGOTIATE WITH THE GOG, A PLAN FOR THE USE OF LOCAL CURRENCY CREDIT FUNDS BY DECEMBER 31, 1990.

APPENDIX IV

RESPONSE: WE REPEAT, USAID IS CURRENTLY ENGAGED IN NEGOTIATIONS WITH THE GOG TO REFINE THE BLUE PRINT TO GUIDE THE USE OF LOCAL CURRENCY RESOURCES. MISSION EXPECTS TO REACH AN AGREEMENT ON REVISED PLAN BY MARCH 31, 1991.

B. IF NO AGREEMENT CAN BE REACHED BY THE ABOVE DATE, NEGOTIATE WITH THE GOG TO ALLOCATE THE IDLE FUNDS TO OTHER PROJECT ACTIVITIES.

RESPONSE: MISSION IS CONFIDENT THAT AN AGREEMENT WILL BE REACHED WITH GOG BY MARCH 31, 1991 DATE NOTED ABOVE.

RECOMMENDATION NO. 5:

A. REQUIRE DESIGNATED MISSION OFFICIALS TO ASSUME FULL

## RESPONSIBILITY FOR MONITORING PROJECT IMPLEMENTATION.

RESPONSE: ON 10/15/90 MISSION DIRECTOR FORMALLY ASSIGNED USAID OFFICIALS TO ASSUME FULL RESPONSIBILITY FOR PROJECT MANAGEMENT IMPLEMENTATION. BASED UPON THIS ACTION, MISSION REQUESTS DELETION OF THIS RECOMMENDATION. COPY OF MISSION NOTICE WILL BE SENT VIA DHL.

B. ESTABLISH A PROJECT COMMITTEE TO ENSURE THAT PROJECT IMPLEMENTATION ACTIONS ARE CARRIED OUT ON A TIMELY BASIS BY THE BEST QUALIFIED MISSION PERSONNEL.

RESPONSE: THE PROJECT MANAGER ESTABLISHED A PROJECT COMMITTEE FOR THIS PURPOSE ON 10/19/93. MISSION, THEREFORE, REQUESTS DELETION OF THIS RECOMMENDATION. COPY OF MISSION NOTICE WILL BE SENT VIA DHL.

C. IMPLEMENT A FINANCIAL MONITORING SYSTEM THAT WILL TRACK OBLIGATIONS AND EXPENDITURES BY PROJECT MANAGEMENT UNIT.

RESPONSE: AS NOTED ABOVE, THE EXPATRIATE PSC PROJECT MANAGER AND THE HOST COUNTRY PROJECT ASSISTANT ARE IN THE PROCESS OF BEING HIRED AND WILL BE RESPONSIBLE FOR DEVELOPING AND IMPLEMENTING THE ABOVE FINANCIAL MONITORING SYSTEM IN CONSULTATION WITH THE CONTROLLER. WE ANTICIPATE THAT THIS SYSTEM WILL BE DEVELOPED AND WILL BE IN PLACE BY THE END OF THE FISCAL YEAR. MEANWHILE MISSION, THROUGH THE PROJECT COMMITTEE, IS IN THE PROCESS OF INITIATING A FINANCIAL MONITORING SYSTEM AS PART OF ITS PROJECT MANAGEMENT.

D. REVIEW THE PROPRIETY OF PAYMENT OF DOLS 231,053 FOR CONTRACTUAL SERVICES THAT WERE NOT SATISFACTORILY PERFORMED AND TAKE APPROPRIATE CORRECTIVE ACTIONS.

RESPONSE: MISSION HAS REQUESTED CONTRACTORS TO SUBMIT REQUIRED REPORTS ASAP (VIA CONAKRY 04596, CONAKRY 04597, CONAKRY 04598, CONAKRY 04599, AND CONAKRY 04600). USAID HAS ALREADY RECEIVED SOME RESPONSES. MISSION BELIEVES THAT THE CORRECT REPORTS WILL BE OBTAINED BY DECEMBER 31, 1990. IN CASE MISSION DOES NOT RECEIVE THE REQUIRED REPORTS BY THE SAID DATE WE WILL PROCEED TO TAKE APPROPRIATE CORRECTIVE ACTIONS.

## 3. SPECIFIC COMMENTS ON POINTS RAISED IN THE DRAFT AUDIT REPORT.

THE MISSION OFFERS THE FOLLOWING COMMENTS FOR CONSIDERATION IN PREPARING THE FINAL REPORT. EXTRACTS FROM THE TEXT ARE IDENTIFIED BY PAGE NUMBER, PARAGRAPH AND SENTENCE. THE MISSION'S RESPONSES FOLLOW.

PAGE 4: THIRD PARAGRAPH: FURTHERMORE, THERE IS NO CONCLUSIVE EVIDENCE WHETHER THE FIRST TRANCHE OF DOLS 5 MILLION HAS USED BY THE COG FOR THE INTENDED PURPOSE OF PROVIDING BALANCE OF PAYMENTS SUPPORT TO GUINEA'S STRUCTURAL ADJUSTMENT PROGRAM.

APPENDIX IV

COMMENTS: MISSION BELIEVES DOLS 5 MILLION DISBURSED WAS USED AS INTENDED. IT IS PRUDENT CENTRAL BANK PRACTICE TO POOL ALL ITS FUNDS (FROM ALL SOURCES) TOGETHER IN ORDER TO OPERATE A FOREIGN EXCHANGE AUCTION SYSTEM. THUS, IT IS DIFFICULT TO MONITOR THE IMPACT OF THE DOLS 5 MILLION SEPARATELY SINCE THIS AMOUNT WAS PART OF THE TOTAL AMOUNT USED TO OPERATE THE FOREIGN EXCHANGE AUCTION SYSTEM. MISSION BELIEVES THAT WHAT THE GOG DID WAS IN ACCORDANCE WITH OUR AGREEMENT.

PAGE 7: SECOND AND THIRD PARAGRAPHS: THE AUDIT SHOWED THAT THE EPRSP HAS NOT MADE SATISFACTORY PROGRESS ALTHOUGH IT HAS ALMOST REACHED THE MID-POINT STAGE. SEVERAL PLANNED ACTIVITIES HAVE NOT BEEN INITIATED, PROCUREMENT FOR TECHNICAL ASSISTANCE IS BEHIND SCHEDULE AND ONLY DOLS 841,151 OUT OF A.I.D.'S TOTAL AUTHORIZATION OF DOLS 8.5 MILLION WAS REPORTED AS SPENT. THE FOLLOWING GRAPHICAL PRESENTATION SHOWS A COMPARISON OF BUDGETED WITH ACTUAL EXPENDITURES FOR EACH OF THE FOUR PROJECT COMPONENTS AS OF APRIL 30, 1990.

COMMENTS: THE MISSION AGREES THAT THE PROJECT IS BEHIND SCHEDULE. HOWEVER, A COMPARISON OF APRIL 1990 EXPENDITURES WITH THE TOTAL LIFE OF PROJECT FUNDING IS UNFAIR AND DISTORTS THE PROGRESS MADE TO DATE. MISSION BELIEVES A MORE EQUITABLE MEASURE OF PROGRESS IS TO COMPARE PLANNED EXPENDITURES WITH ACTUAL EXPENDITURES. ACCORDING TO THE PROJECT PAPER, AMENDMENT NO. 1, PLANNED EXPENDITURES THROUGH FY 1990 WERE ESTIMATED TO BE DOLS 4 MILLION. ACTUAL EXPENDITURES AS OF SEPTEMBER 30, 1990 WERE DOLS 2,438,271, OR 61 PERCENT. FOR CLARIFICATION, ONLY DOLS 8.0 MILLION HAVE BEEN OBLIGATED THROUGH SEPTEMBER 30, 1990 OUT OF A.I.D.'S TOTAL AUTHORIZATION OF DOLS 8.5 MILLION. FURTHERMORE, THERE WAS INCREASED ACTIVITY AND RAPID ACCELERATION OF PROJECT IMPLEMENTATION DURING FY 1990. SINCE OCTOBER 1, 1989 THROUGH SEPTEMBER 30, 1990 COMMITMENTS (PROCUREMENT T.A. AND COMMODITY ACTION) INCREASED FROM DOLS 1.2 MILLION TO DOLS 3.7 MILLION AND EXPENDITURES INCREASED FROM DOLS 751,922 TO DOLS 2.4 MILLION.

THE FOLLOWING TABLE SHOWS A COMPARISON OF BUDGETED AMOUNTS WITH EARMARKS, COMMITMENT AND ACTUAL EXPENDITURES FOR EACH OF THE FOUR PROJECT COMPONENTS AS OF SEPTEMBER 30, 1990.

(DOLS 000)	BUDGET	EARMARKS	COMMITMENTS	EXPENDITURES
GENERAL	2.20	1.34	1.34	.94
MARA	3.54	2.57	2.14	1.25
SEMSP	1.38	.73	.12	.12
PROJECTED OTHER	1.38	.22	.14	.13
TOTAL OBLIG	8.50	4.86	3.74	2.44

TOTAL DOLS 4,854,799 HAVE BEEN EARMARKED OF WHICH DOLS 3,745,171 HAVE BEEN COMMITTED AS OF 9/30/90. FYI: EARMARKS ARE OBLIGATED FUNDS WHICH HAVE BEEN SET ASIDE TO COVER A SPECIFIC PLANNED PROCUREMENT ACTIVITY SUCH AS SERVICES, COMMODITIES, ETC. THROUGH THE ISSUANCE OF A P.O., P.I.L, ETC. A COMMITMENT IS THE EXECUTION OF A CONTRACTUAL DOCUMENT SUCH AS A PURCHASE ORDER OR CONTRACT FOR SERVICES. END FYI. SINCE OBLIGATIONS TO DATE ARE DOLS 8.0 MILLION, THE UNEARMARKED BALANCE IS ONLY 3,145,221 (DOLS 8 MILLION LESS DOLS 4,854,799). GIVEN THESE DATA, WE RECOMMEND THAT THE SUBJECT PASSAGE BE ADJUSTED TO REFLECT REALITY OR DELETED COMPLETELY FROM THE TEXT.

PAGE 8, FIRST, SECOND AND FIFTH PARAGRAPHS: OUR REVIEW AND ANALYSIS OF THE ABOVE COMPONENTS SHOWED THAT, ALTHOUGH ACTIVITIES INITIATED UNDER THE "GENERAL" AND THE "MINISTRY OF AGRICULTURAL AND ANIMAL RESOURCES" (MARA) COMPONENTS ARE BEING EFFICIENTLY IMPLEMENTED, PROGRESS IN MEETING CERTAIN TARGETS IS BEHIND SCHEDULE. FOR EXAMPLE, THE MISSION HAS NOT YET PLANNED FOR THE USE OF DOLS 628,642 IN GENERAL ECONOMIC REFORM SUPPORT FUNDS OF DOLS 1,425,272 IN

MARA FUNDS.

APPENDIX IV

ADDITIONALLY, THE "CENTRAL BANK TECHNICAL ASSISTANCE" AND THE "PROJECTED/OTHER" COMPONENTS ARE TOTALLY INACTIVE, FOUR YEARS AFTER PROJECT INCEPTION. TWO LONG-TERM TECHNICAL ADVISORS TO ASSIST THE GOG CENTRAL BANK HAD NOT BEEN RECRUITED AND DOLS 400,000 BUDGETED FOR VARIOUS TECHNICAL ASSISTANCE HAD NOT EVEN BEEN CONTRACTED.

THE "PROJECT/OTHER" COMPONENT INCLUDED DOLS 400,000 FOR TECHNICAL ASSISTANCE. AS OF JULY 26, 1990 NO ACTIVITIES HAD BEEN EITHER IMPLEMENTED OR PLANNED UNDER THIS CATEGORY, AND THE FUNDS ARE THEREFORE UNUSED. LIKEWISE, AS OF JULY 26, 1990, DOLS 1,425,072 OF MARA SUPPORT FUNDS AND DOLS 628,640 OF GENERAL ECONOMIC REFORM SUPPORT FUNDS HAVE NOT BEEN USED NOR HAS THE MISSION ESTABLISHED ANY PLAN TO UTILIZE THE FUNDS.

COMMENTS: DRAFT AUDIT REPORT ANALYSIS WAS BASED ON

LIFE-OF-PROJECT FUNDING (DOLS 8.5 MILLION) RATHER THAN THE AMOUNT OBLIGATED (DOLS 2 MILLION). THIS DIFFERENCE OF DOLS 500,000 TENDS TO OVERSTATE ANALYSIS ON LACK OF PROGRESS BEING MADE.

OUR REVIEW AND ANALYSIS SHOWS EARMARKED FUNDS (PLANNED PROCUREMENT ACTIVITY) OF DOLS 1,339,563 FOR "GENERAL" AND DOLS 2,569,056 FOR THE "MARA" COMPONENTS. THEREFORE, THE "UNPLANNED" AMOUNTS SHOULD BE DOLS 860,437 FOR "GENERAL" AND DOLS 970,944 FOR "MARA" COMPONENTS. THESE "UNPLANNED" AMOUNTS INCLUDE THE UNOBLIGATED AMOUNT OF DOLS 522,000.

FOR CLARIFICATION, THE FIRST SENTENCE OF PARAGRAPH TWO CONCERNING THE "CENTRAL BANK TECHNICAL ASSISTANCE" IS INACCURATE. MISSION HAS ACTIVELY BEEN INVOLVED IN THE RECRUITMENT PROCESS FOR THE TWO LONG-TERM TECHNICAL ADVISORS SINCE SEPTEMBER 1989. TO WIT, A PIO/T FOR THESE SERVICES WAS AUTHORIZED ON SEPTEMBER 7, 1989. AN RFP HAS BEEN ISSUED AND RESPONDED TO; MISSION TECHNICAL EVALUATION COMMITTEE IS CURRENTLY FINALIZING ITS REPORT TO REESO/WCA.

OUR REVIEW OF PROJECT PAPER AMENDMENT NUMBER ONE SHOWS DOLS 350,000 BUDGETED FOR TECHNICAL ASSISTANCE FOR THE "PROJECT/OTHER" COMPONENT -- DOLS 100,000 FOR SHORT-TERM AND DOLS 250,000 FOR STUDIES -- AND NOT DOLS 420,000.

PAGE 14, FIFTH AND SIXTH PARAGRAPHS: FOR EXAMPLE, ALTHOUGH LONG-TERM TECHNICAL ASSISTANCE BY COR ELL UNIVERSITY UNDER A DOLS 1.2 MILLION AGREEMENT WITH A.I.D. WAS BEING IMPLEMENTED IN GUINEA FOR OVER A YEAR, THE PROJECT ACCOUNTING RECORDS DID NOT SHOW THAT DOLS 1.2 MILLION HAD BEEN COMMITTED TO COR ELL UNIVERSITY OR THAT ANY EXPENDITURES HAD BEEN INCURRED. HOWEVER, IT WAS FROM COR ELL UNIVERSITY AND NOT FROM A.I.D. THAT WE WERE ABLE TO OBTAIN THE INFORMATION THAT DOLS 682,664 WAS CHARGED BY THE CONTRACTOR AS OF APRIL, 1990.

WHEN ASKED WHY A.I.D. ACCOUNTING RECORDS DID NOT REFLECT THE ABOVE EXPENDITURES, NEITHER THE PROJECT OFFICER, THE CONTROLLER, NOR THE OFFICIAL ACCOUNTING STATION IN ABIDJAN WERE ABLE TO PROVIDE US WITH AN EXPLANATION. FINALLY, WE DISCOVERED THE REASON--USAID/GUINEA DID NOT HAVE A COPY OF THE CORNELL UNIVERSITY CONTRACT IN ITS FILES. WITHOUT THIS DOCUMENT, USAID/GUINEA WAS UNABLE TO TAKE APPROPRIATE ACTION TO COMMIT THE DOLS 1.2 MILLION EARMARKED FOR THIS TECHNICAL ASSISTANCE. IN ADDITION, THE PROJECT OFFICER DID NOT RECEIVE THE REQUIRED MONTHLY FINANCIAL REPORTS FROM CORNELL UNIVERSITY'S HOME OFFICE IN THE UNITED STATES THAT WOULD HAVE ENABLED HER TO MONITOR CONTRACTOR EXPENSES.

PAGE 15, FIRST PARAGRAPH: WE BELIEVE THAT HAD THE NECESSARY FINANCIAL CONTROLS BEEN IN PLACE, THE PROJECT OFFICER WOULD HAVE DISCOVERED THIS SITUATION AND TAKEN APPROPRIATE CORRECTIVE ACTION. DURING THE AUDIT, THE OVERSIGHT WAS BROUGHT TO THE ATTENTION OF THE PROJECT OFFICER AND CONTROLLER AND THEY LOCATED THE COMMITMENT DOCUMENT AND UPDATED THE ACCOUNTING RECORDS TO INCLUDE THE UNRECORDED EXPENDITURES.

APPENDIX IV

COMMENTS: THE FIRST TWO SENTENCES IN PARAGRAPH SIX ON PAGE 14 AND THE SECOND SENTENCE IN PARAGRAPH 1 ON PAGE 15 ARE INACCURATE. FOR CLARIFICATION, WHEN ASKED WHY THE OFFICIAL A.L.D. ACCOUNTING RECORDS DID NOT REFLECT THE AMOUNTS REPORTED BY THE RESIDENT REPRESENTATIVE OF CORNELL UNIVERSITY, THE CONTROLLER EXPLAINED TO THE AUDITORS THAT THE REASON THERE WERE NO EXPENDITURES REPORTED FOR CORNELL UNIVERSITY WAS BECAUSE USAID/GUINEA DID NOT HAVE A COPY OF THE COOPERATIVE AGREEMENT (A MISSION BUY-IN WITH FIVE OTHER MISSIONS TO THIS AID/W AGREEMENT). SINCE MID-1980, THE MISSION HAD ON SEVERAL OCCASIONS REQUESTED A COPY. WITHOUT THE COMMITMENT DOCUMENT, THE DOLS 1.2 MILLION COULD NOT BE REFLECTED IN A.I.D.'S ACCOUNTING RECORDS. CONSEQUENTLY, QUARTERLY ACCRUALS COULD NOT BE REPORTED TO REDSO/WCA/WAAC, USAID/GUINEA'S OFFICIAL ACCOUNTING STATION. FINALLY, THE CONTROLLER CALLED AID/W AND A COPY WAS PROVIDED ENABLING THE MISSION TO UPDATE ITS ACCOUNTING RECORDS, AND REPORT QUARTERLY ACCRUALS. BOTH THE PROJECT OFFICER AND CONTROLLER WERE AWARE OF THIS SITUATION AND IT

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WAS COINCIDENTAL THAT THE COOPERATIVE AGREEMENT WAS  
RECEIVED IN JUNE DURING THE AUDIT.

APPENDIX IV

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