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Regional Inspector General for Audit
Dakar

Audit of USAID/Ghana's P.L. 480 Title III Program

Audit Report No. 7-641-93-08
July 16, 1993

INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

EXECUTIVE SUMMARY

BACKGROUND

By legislation enacted in 1990, the Congress authorized the Public Law (P.L.) 480 Title III program in order to alleviate food shortages in least developed countries. Implemented world-wide under A.I.D.'s monitoring, this program is designed to transfer surplus U.S. agricultural produce which are then used by the recipient country for direct food assistance or monetized in-country and the local currency programmed for development activities.

Since June 1991, USAID/Ghana has signed two P.L. 480 Title III program agreements with the Government of Ghana (GOG), committing A.I.D. to transfer rice and wheat to that country until September, 1994. As of January 1993, A.I.D. had provided approximately 69,000 metric tons of rice and wheat valued at $17 million. Of this quantity, approximately 54,000 metric tons had been monetized, making available $10.6 million in local currency to be programmed for development activities in Ghana.

The audit focused on USAID/Ghana's systems and procedures relating to 1) planning and authorizing the Title III programs in Ghana; 2) receiving, storing and auctioning the P.L. 480 commodities to eligible private sector buyers; 3) generating, programming and using the local currency sales proceeds; 4) monitoring losses and spoilage of the commodities and filing claims resulting therefrom; and 5) carrying out required audits under the Title III program agreements.

RESULTS OF AUDIT

Overall, USAID/Ghana planned, designed and coordinated the Title III programs in a manner that resulted in shipments of the agreed upon quantities of rice and wheat from the U.S. to Ghana; enabled the GOG to sell those commodities through its authorized agents to eligible local dealers efficiently and expeditiously, and facilitated programming of the local currency sales proceeds for development activities in Ghana in accordance with the Title III agreements.

However, further progress in implementing program activities has not been satisfactory primarily because of the GOG's inability or unwillingness to fulfill certain important provisions of the Title III program agreements. Moreover, USAID/Ghana's monitoring

efforts have failed to prod the GOG into taking the required corrective actions. Consequently, Ghana has not reaped the expected benefits from an infusion of approximately $10.6 million in local currency into the country's treasury. The following paragraphs describe the problems found.

- The GOG had not established a separate bank account to deposit local currency generated by sale of P.L. 480 commodities, as required under provisions of the FY 1991 Title III program agreement (page 7).

- Planned development activities to be financed by $8.4 million in local currency sales proceeds had not made satisfactory progress (page 9).

- Despite comprehensive and stringent audit requirements, the GOG had neither planned for nor scheduled any of the required audits, exposing $10.6 million of U.S. Government provided resources to loss or misuse, without timely detection (page 14).

We believe that the above problems are wide-ranging and need prompt action on the part of the Government of Ghana and sustained monitoring on the part of USAID/Ghana to effectively address the deficiencies.

SUMMARY OF RECOMMENDATIONS

This report makes four recommendations for corrective actions which are summarized below. USAID/Ghana should:

- require the GOG to establish a separate bank account to deposit local currency generated under the FY 1991 Title III program and reimburse this account for the local currency equivalent of $150,000 in uncollected sales proceeds (page 7);

- suspend or postpone further P.L. 480 commodity shipments to Ghana until full disbursements of the local currency sales proceeds and substantial progress in implementing the planned development activities under the FY 1991 Title III program have been made (page 10);

- coordinate with the GOG to establish workplans and quantifiable performance indicators to measure progress of the local currency financed development activities and periodically review the implementation thereof (page 10); and

- coordinate with the GOG to develop a comprehensive audit plan and expedite the required audits of the Title III programs (page 14).

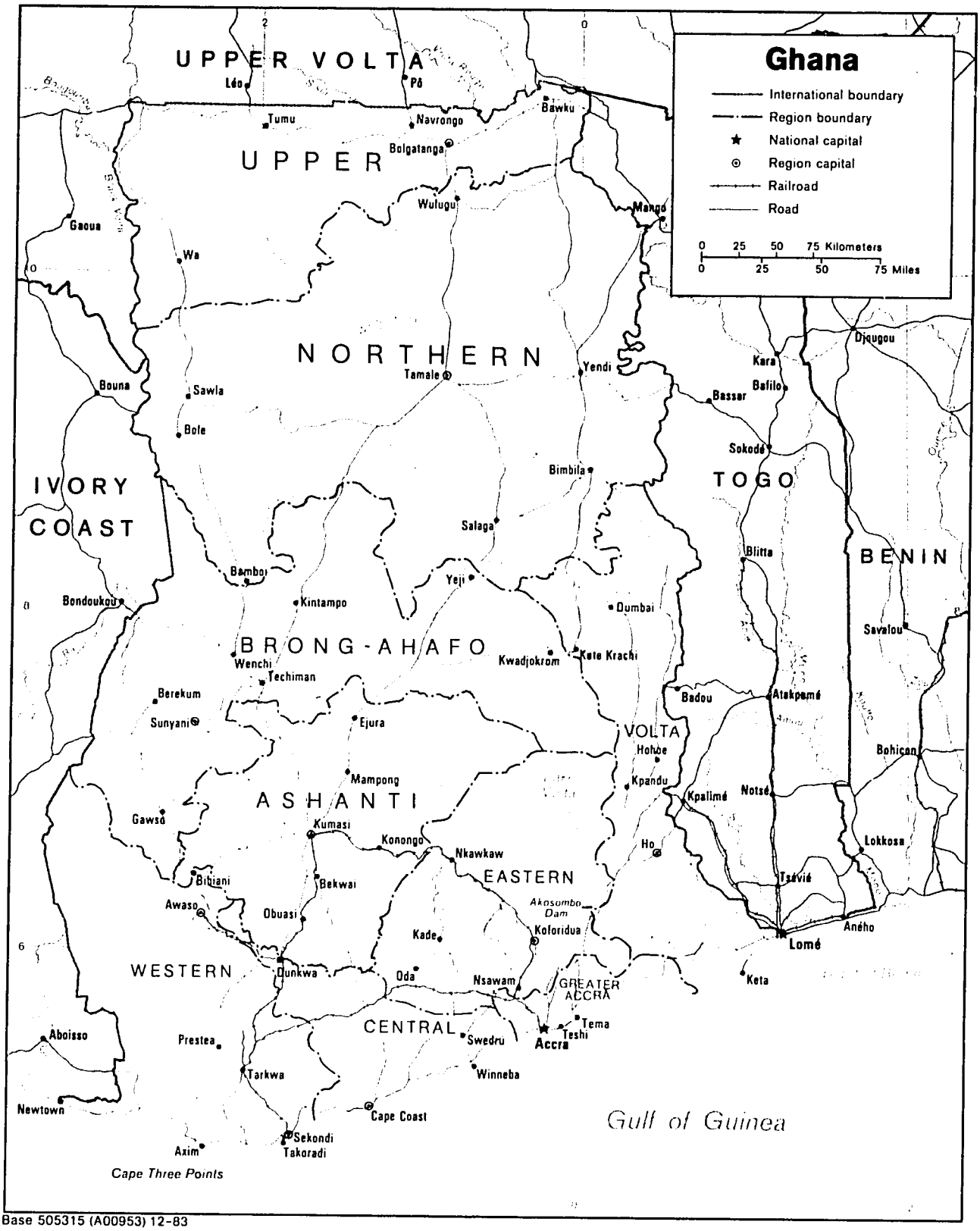
The above recommendations, if properly carried out, should result in significant improvements over the situation we found during the audit.

Management Comments and Our Evaluation

USAID/Ghana responded very positively to our draft audit report. The Mission accepted all our recommendations and reported substantial progress in their implementation. For example, in coordination with the Government of Ghana, the Mission has already: 1) recovered the uncollected sales proceeds totaling $150,000 in local currency; 2) disbursed the entire local currency sales proceeds of $8.4 million under the FY 1991 program to Ghanaian organizations responsible for implementing the planned development activities; 3) been actively coordinating with the Government of Ghana to establish a workplan with quantifiable bench marks and conducting periodic progress reviews of planned development activities; and 4) coordinated with the Government of Ghana to plan for the initial financial audit of the Fiscal Year 1991 P.L.480 Title III Program and establish an audit plan for the Multi-Year Title III program.

Based on the actions reported by USAID/Ghana, all four recommendations are considered resolved and can be closed upon our receipt of documentary evidence from the Mission that the abovementioned actions are complete.

Office of the Inspector General
July 16, 1993



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INTRODUCTION

Background

Established under the Agricultural Development and Trade Act of 1990, the Public Law (P.L.) 480 Title III program enables the United States to alleviate food scarcities in "least developed countries" by donating its surplus agricultural produce. A.I.D. is responsible for monitoring implementation of the Title III programs worldwide.

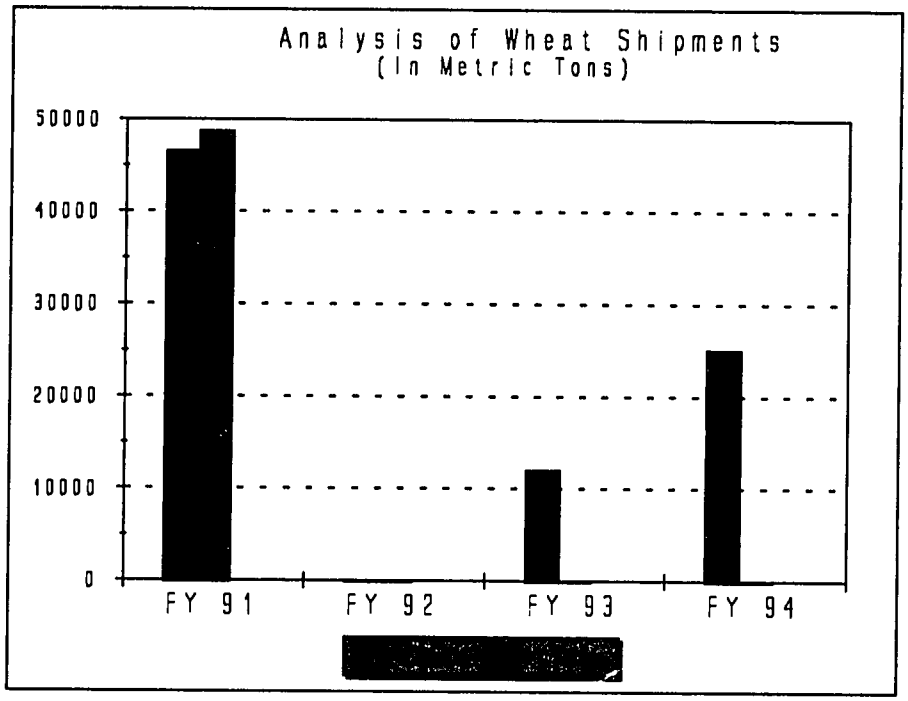
Donated agricultural commodities may be used for direct feeding, emergency food assistance, or sold in the recipient country and the money used for specified development activities. A portion of such sales proceeds may also be used to fund development programs implemented by the recipient country's non-governmental organizations.

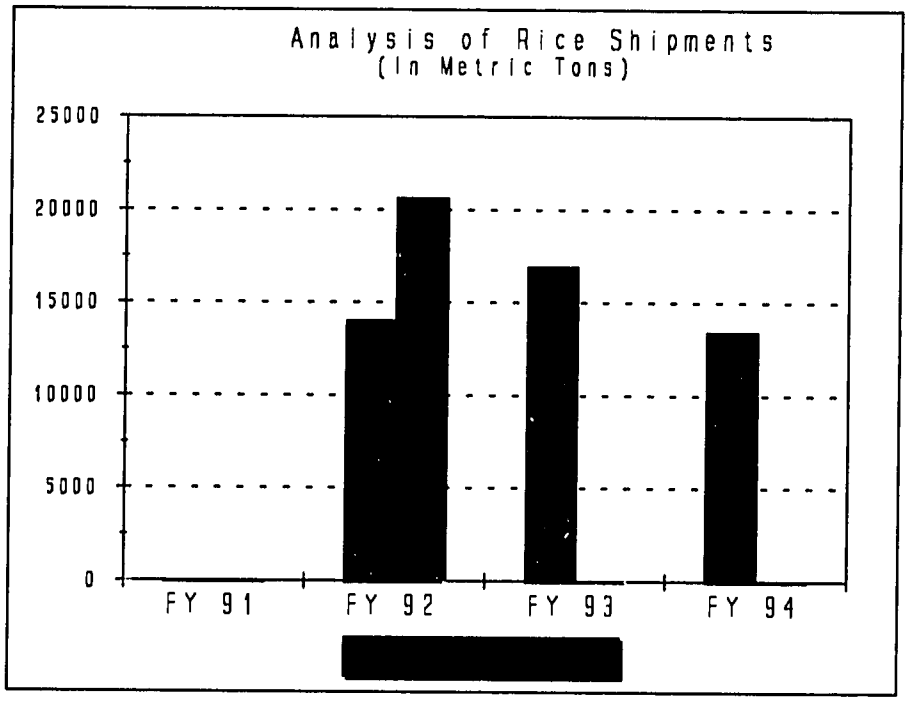
Since June 1991, USAID/Ghana has executed two P.L. 480 Title III program agreements with the Government of Ghana (GOG). A one-year (FY 1991) agreement was signed on June 28, 1991 followed by a multi-year (FY 1992-1994) agreement on July 14, 1992.

The GOG Ministry of Finance and Economic Planning (MFEP) is responsible for implementing the programs. MFEP delegated to a parastatal organization, Ghana National Procurement Agency (GNPA), the responsibility to receive, store and sell P.L. 480 wheat shipments. For rice shipments, MFEP contracted with a private sector financial institution to receive, transport, store and auction the commodity to eligible private sector dealers in Ghana.

USAID/Ghana is responsible for monitoring the GOG's implementation of the P.L. 480 Title III programs. The head of the Mission's Trade, Agriculture and the Private Sector office is responsible for this function and is assisted by a staff of two full-time employees.

Between June 1991 and January 1993, A.I.D. had provided the GOG 48,500 metric tons of wheat and 20,500 metric tons of rice under the Title III agreements valued at $10 million and $7 million, respectively. As of January 1993, the entire wheat shipment and approximately 5,300 metric tons of rice had been monetized making available $10.6 million in local currency to finance development activities. The two graphs on the following page show the planned and actual quantities of rice and wheat transferred by A.I.D. to the GOG from fiscal years 1991 through 1994.





Note: The above information was taken from USAID/Ghana's program and shipping documents which were audited by us.

Audit Objectives

As part of its fiscal year 1993 audit plan, the Office of the Regional Inspector General, Dakar, audited USAID/Ghana's P.L. 480 Title III programs to answer the following objectives.

Did USAID/Ghana follow A.I.D. policies, procedures, Public Law 480 and other applicable regulations in:

- planning and authorizing the Title III programs?
- monitoring the receipt, storage and sale of commodities under the Title III programs?
- monitoring the generation, deposit, programming and use of local currency funds resulting from the sale of Title III commodities?
- monitoring the follow-up of losses and spoilage of Title III commodities and recovery of related claims?
- ensuring that required audits were performed under the Title III program agreements?

Appendix I describes the audit's scope and methodology.

REPORT OF AUDIT FINDINGS

Did USAID/Ghana follow A.I.D. policies, procedures, Public Law 480 and other applicable regulations in planning and authorizing the Title III programs?

USAID/Ghana complied with A.I.D. policies, procedures, P.L. 480 and other applicable regulations in planning and authorizing the one-year (FY 1991) and the multi-year (FY 1992-1994) Title III programs.

Consistent with the Agricultural Development and Trade Act of 1990, A.I.D. implementing procedures require that Missions perform studies to determine whether the distribution of the P.L. 480 commodities in the recipient country will result in substantial disincentive to or interference with domestic production or marketing in that country. In planning the two programs, USAID/Ghana undertook comprehensive studies and analyses of the local wheat and rice markets and assessed the impact of the programs on local food production and market prices. The studies concluded that additional imports of wheat and rice into Ghana would have negligible impact on the prices, production, and consumption of locally produced food crops.

While designing the program agreements, the Mission incorporated adequate controls over key activities as required by the above legislation and A.I.D. implementing procedures. For example, systems for receipt, storage, and sale of the Title III commodities as well as generation and use of local currency funds from the sale of those commodities were clearly defined and incorporated in the program documents. In addition, the FY 1991 Title III agreement required that the local currency be deposited in a separate interest-bearing account. For the multi-year program, the GOG was to set aside an amount equal to the local currency generated from sale of the donated commodities. As of July 1992, local currency of $12.8 million had been jointly programmed for approved development purposes, consistent with A.I.D. development activities as required by the above legislation.

Also, USAID/Ghana addressed concerns of the A.I.D./Washington Review Committee and evaluated capabilities of GOG institutions to implement development activities to be financed by the local currencies generated from the sale of Title III commodities.

Furthermore, as specifically required by the legislation, the Mission and the GOG jointly programmed about 10 percent of the $8.4 million in local currency generated under the FY 1991 agreement for development activities to be implemented by non-governmental organizations. The same level of funding is anticipated in the multi-year program. Overall, the Mission designed the programs in a manner that enabled Ghana's private sector to play a key role in handling the receipt, storage and sale of the PL 480 commodities.

Did USAID/Ghana follow A.I.D. policies, procedures, Public Law 480 and other applicable regulations in monitoring the receipt, storage, and sale of commodities under the Title III programs?

USAID/Ghana followed A.I.D. policies, procedures, Public Law 480 and other applicable regulations in monitoring the receipt, storage and sale of commodities under the Title III programs.

The Title III program agreements required USAID/Ghana to provide 48,500 metric tons of wheat and 20,500 metric tons of rice to the Government of Ghana (GOG) during fiscal years 1991 and 1992, respectively. The commodities were to be sold and the local currency generated therefrom was to be programmed for specific development activities.

Under the one-year (FY 1991) Title III program, USAID/Ghana ensured that the required quantity of wheat was shipped from the U.S. and sold to four eligible local millers by a GOG-authorized agent. Consequently, local currency equivalent of $8.4 million was generated and programmed for approved development activities.

Under the multi-year (FY 1992-1994) Title III program, the Mission: 1) coordinated with A.I.D./Washington to ensure that the required quantity of rice planned for fiscal year 1992 was shipped from the U.S. to Ghana in a timely manner; and 2) monitored the receipt, storage, and auctioning of the commodity by a GOG-authorized agent to eligible private-sector rice dealers in accordance with program agreement provisions. Moreover, USAID/Ghana provided the required technical assistance to the GOG by designing a system which assisted the financial institution to auction the Title III rice efficiently and expeditiously. As a result, local currency equivalent of approximately $2.2 million was generated and programmed for approved development activities.

Did USAID/Ghana follow A.I.D. policies, procedures, Public Law 480 and other applicable regulations in monitoring the generation, deposit, programming and use of local currency funds resulting from the sale of Title III commodities?

For the FY 1992-1994 multi-year Title III program, USAID/Ghana followed A.I.D. policies, procedures, P.L. 480 and other applicable legislation in monitoring the generation, programming, deposit and use of local currency sales proceeds.

The Mission ensured that the Government of Ghana (GOG) contracted with a private sector organization to receive, store and sell the first shipment of approximately 20,600 metric tons of Title III rice in four auction sales to eligible private sector dealers. The first auction, conducted in January 1993, realized the local currency equivalent of $2.2 million. The remaining three, scheduled through June 1993, are expected to realize approximately $6.6 million in local currency for a total of $8.8 million for the entire shipment.

To meet the conditions precedent of the multi-year (1992-1994) program agreement, the Government of Ghana (GOG) submitted to USAID/Ghana a Letter of Intent on July 15, 1992 which programmed $4.4 million in local currency for development activities which were duly approved by USAID/Ghana. Mission officials informed us that the GOG would submit a plan to program the remaining $4.4 million by June 1993. This agreement did not require the GOG to deposit local currency sales proceeds in a separate interest-bearing account. Rather, the GOG was to set aside a sum of money equivalent to the sales proceeds, which was to be programmed for development activities. The GOG fulfilled this requirement.

As for the one-year (FY 1991) Title III Program, USAID/Ghana partially followed A.I.D. policies, procedures, P.L. 480 and other applicable regulations in monitoring the generation, programming and use of local currency funds from the sale of Title III commodities.

The Mission incorporated adequate control mechanisms in the Title III program agreement by defining sales procedures and requiring that a separate, interest-bearing account be established to deposit the local currency sales proceeds.

For programming and use of sales proceeds, USAID/Ghana coordinated with the GOG to identify development activities to be financed by local currency funds and established a budget allocating funds to those activities. Moreover, Mission officials met periodically with the GOG to review program accomplishments and resolve implementation problems.

However, USAID/Ghana's monitoring actions did not ensure that the GOG (1) established the required separate, interest-bearing bank account to deposit the P.L. 480 local currencies, and (2) implemented the planned development activities financed by local currency in a timely manner. These deficiencies are discussed below in detail.

USAID/Ghana Should Strengthen Its Monitoring Of Host Country Accounting Of Local Currency Funds

The FY 1991 Title III agreement required that the Government of Ghana (GOG) establish a separate, interest-bearing bank account to deposit the local currency realized from the sale of P.L. 480 commodities and forward the above bank account statements to USAID/Ghana on a quarterly basis. However, the GOG deposited the local currency in a non-interest bearing account at the Bank of Ghana where the funds were commingled with those from other donors. No interest was earned because a GOG law prohibits such payments by the Bank of Ghana on GOG accounts. Consequently, the Title III program lost approximately $533,000 in local currency from unrealized interest income. Moreover, commingling of P.L. 480 local currency funds with those from other donors impaired Mission's monitoring of the deposit and use of local currency sales proceeds. In addition, accounting records showed a discrepancy of approximately $150,000 in uncollected sales proceeds.

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

1.1 require the Government of Ghana to establish a separate bank account designated solely for deposits and withdrawals of P.L. 480 local currency sales proceeds;

1.2 reconcile the P.L. 480 bank account statements to the Government of Ghana financial reports relating to receipts and disbursements of Title III local currency on a quarterly basis; and

1.3 require the Government of Ghana to deposit the local currency equivalent of $150,000 in uncollected sales proceeds into the P.L. 480 bank account.

Section 2.4 of the FY 1991 Title III program agreement required the GOG to establish a separate, interest-bearing bank account to deposit local currency generated from the sale of P.L. 480 commodities. To ensure that such funds are properly used by the host country, the agreement also required the GOG to submit the bank account statements to USAID/Ghana on a quarterly basis. Sound management controls would require the Mission to periodically reconcile these bank statements to the receipts and disbursements of P.L. 480 local currency per the GOG-generated financial reports which were made available to the Mission by the GOG on a regular basis.

However, the GOG did not establish the required separate, interest-bearing bank account. Instead, they deposited the local currency sales proceeds in a non-interest bearing account at the Bank of Ghana where the money was commingled with funds from other donors. **Had**

the account been interest-bearing, the P.L. 480 program would have realized an estimated interest income of approximately $533,000 in local currency as of January 29, 1993.

Moreover, because funds deposited into the above bank account were commingled, USAID/Ghana could not adequately monitor the generation and use of the P.L. 480 local currency funds by relying solely on the GOG financial reports. Our review of those reports as of December 15, 1992 showed that whereas the sales recorded therein totaled 3,189,130,962 cedis, only 3,130,018,149 cedis were deposited into the GOG bank account, leaving a shortage of 59,112,813 cedis, or approximately $150,000.

According to USAID/Ghana officials, inclusion of the interest-bearing account requirement in the P.L. 480 Title III agreement was, in retrospect, a mistake because a GOG law prohibited the payment of interest by the Bank of Ghana on government-owned funds. As regards the commingling of P.L. 480 sales proceeds with other GOG funds, Mission officials stated that they relied primarily on GOG-prepared financial reports to monitor the use of the P.L. 480 local currency funds. They further stated that the $150,000 discrepancy between the amount of recorded sales and the amount deposited into the GOG bank account occurred because the buyers of Title III commodities did not meet the payment schedule as stipulated in the program agreement.

While noting USAID/Ghana's explanations, we nevertheless point out that A.I.D. Policy Determination No. 5 issued in October 1987, consistent with section 305(a) of the Agricultural Development and Trade Act of 1990, requires that local currency proceeds be deposited in a separate, interest-bearing bank account. Should this requirement be prohibited or otherwise counterproductive, the Mission must obtain a waiver from the cognizant A.I.D. Assistant Administrator. **USAID/Ghana neither obtained the required waiver nor ensured the establishment of the separate, interest-bearing bank account called for under the program agreement.**

Consequently, USAID/Ghana's monitoring of the P.L. 480 local currency funds was impaired and the Title III program was deprived of approximately $533,000 in local currency from unrealized interest income. Moreover, sales proceeds of approximately $150,000 in local currency were not collected and therefore not available for use.

Management Comments and Our Evaluation

In our draft report to USAID/Ghana we recommended that the Mission require the GOG to establish a separate, interest-bearing bank account and reimburse the P.L. 480 program with the unrealized interest income of $533,000. In responding to our draft report, USAID/Ghana provided us information which showed that a Ghanaian law prohibits interest payments by the Bank of Ghana on GOG-owned funds deposited in that bank. Therefore, we have revised Recommendation Nos. 1.1 and 1.3 to delete the interest-bearing account and interest reimbursement requirements.

Nevertheless, presumably to fulfill their commitments under the Fiscal year 1991 P.L. 480 Title III program agreement, **the GOG voluntarily reimbursed the above bank account with local currency funds equal to $780,000 - $630,000 representing unrealized interest income of $533,000, plus additional interest accruing from December 15, 1992 through June 7, 1993, and uncollected sales proceeds of $150,000.**

The Mission also stated that since issuance of our draft report, the GOG had disbursed the entire P.L. 480 local currency sales proceeds of $8.4 million plus the interest income of $630,000 to the Ghanaian organizations responsible for implementing the planned development activities. Furthermore, those organizations have deposited the funds into separate, interest-bearing accounts at commercial banks.

The above actions fulfill both the intent and the requirements of the Fiscal Year 1991 Title III program agreement relating to the deposit of local currency sales proceeds. Therefore, we consider Recommendation Nos. 1.1 and 1.3 as resolved on the basis of actions taken by the GOG, as reported by the Mission. We will consider closure upon receiving documentary evidence from the Mission showing 1) GOG reimbursement of the uncollected sales proceeds totaling $150,000 in local currency, and 2) disbursements of the entire local currency sales proceeds of $8.4 million to the Ghanaian entities responsible for implementing the approved development activities under the FY 1991 P.L. 480 Title III program.

In as much as all local currency generations and disbursement of funds under the FY 1991 Title III agreement are now complete, Recommendation No. 1.2 is resolved and closed upon report issuance.

USAID/Ghana's Monitoring Of P.L. 480
Local Currency Financed Development
Activities Needs Strengthening

A.I.D. policies require prompt use of P.L. 480 local currency funds for their intended purposes and timely implementation of planned development activities financed by such funds. However, more than eighteen months after initiation of the FY 1991 Title III program in Ghana, local currency financed development activities had made unsatisfactory progress and only $2.6 million out of $8.4 million in local currency earmarked for development had been disbursed. This occurred because of a slow-moving Government of Ghana (GOG) bureaucracy and inadequate monitoring by USAID/Ghana. Consequently, Ghana failed to reap the development benefits resulting from a.. infusion of approximately $8.4 million in local currency into the country's treasury. Moreover, large amounts of idle funds are vulnerable to improper use if not promptly disbursed for their intended purposes.

> **Recommendation No. 2: We recommend that the Director, USAID/Ghana, suspend or postpone further P.L. 480 Title III commodity shipments to Ghana until disbursements of local currency funds under the FY 1991 Title III program**

have been completed and substantial progress has been made on planned development activities.

<u>Recommendation No. 3:</u> We recommend that the Director, USAID/Ghana, in coordination with the Government of Ghana:

3.1 establish a workplan with quantifiable benchmarks and timeframes for implementing planned development activities financed by Title III local currency funds; and

3.2 periodically review progress of the above workplan and modify or develop an action plan to reprogram local currency funds for alternative development activities, as deemed necessary.

Successful and timely implementation of planned development activities is one of the requisites for achieving the intended benefits of the P.L. 480 Title III program. A.I.D. policies require that once funds are generated from the sale of Title III commodities, they should be disbursed expeditiously for the intended purposes.

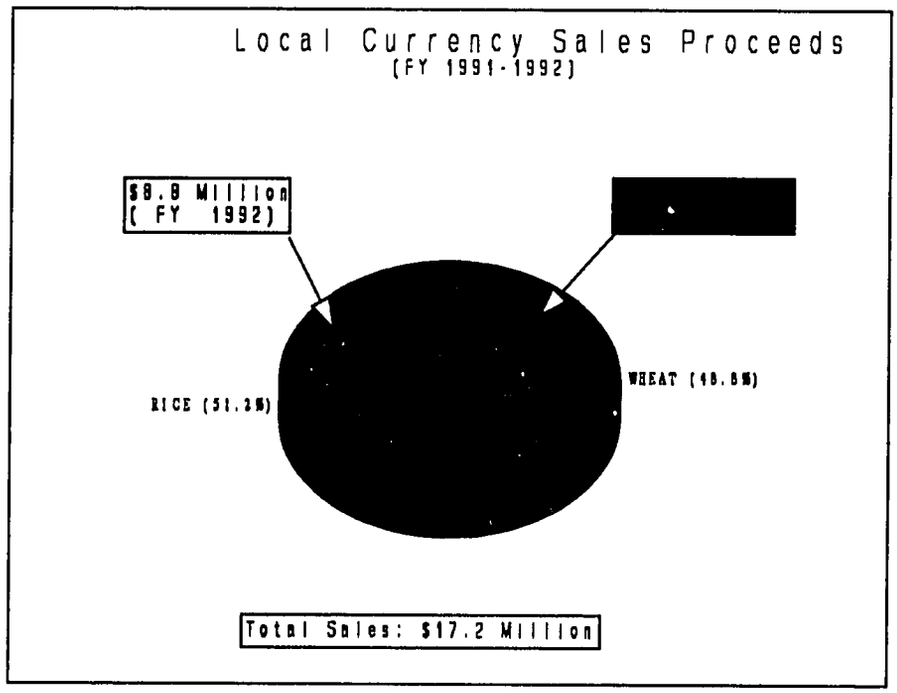
In accordance with provisions of the FY 1991 Title III program agreement, USAID/Ghana and the GOG jointly approved the use of approximately $8.4 million in local currency funds for four development activities as well as for monitoring, evaluation and audit of the Title III program. The activities were to be implemented by GOG institutions, local non-governmental organizations and private sector entities under contract to the GOG.

As of January 1993, more than eighteen months after the Title III program was initiated, two of the four development activities had not commenced and progress in the remaining two could not be readily determined because of lack of quantifiable progress indicators, workplans and timeframes. GOG financial reports showed that $2.6 million of the earmarked amount of $8.4 million had been disbursed. The following table shows the dollar equivalents of local currency amounts programmed and disbursed for each activity as of December 15, 1992. The financial information presented below was taken from GOG financial reports which were not audited.

Nature of Activity	Amount Programmed	Amount Disbursed
Road Construction	$4,500,000	$1,790,000
Crop Service	1,000,000	770,000
Non-governmental Organizations	840,000	-0-
Economic Policy Institute	2,000,000	-0-
Monitoring, Evaluation, and Audits	50,000	-0-
Total	**$8,390,000**	**$2,560,000**

USAID/Ghana officials attributed the delays in implementing the above development activities to a slow-moving GOG bureaucracy and lack of agreement between A.I.D. and the GOG officials on various implementation matters. Moreover, conditions necessary for release of the local currency funds were not fulfilled by the GOG implementing organizations. For example, the Department of Feeder Roads and the Ministry of Agriculture did not submit the required financial and progress reports to permit release of the funds earmarked for the road construction and crop service activities. In another case, the GOG and USAID/Ghana were initially unable to agree on the methods of implementing the non-governmental organization (NGOs) activities. Subsequently, they agreed that the GOG would request the NGOs to submit proposals. However, none had been received as of January 1993. Furthermore, although preliminary studies for establishing an Economic Policy Institute in Ghana had been completed, further progress has been hampered because of lack of agreement among the donor community on how the Institute is to be financed.

As a result of the above bottlenecks, planned program activities have not made satisfactory progress and the GOG has failed to reap the benefits resulting from an infusion of approximately $8.4 million in P.L. 480 Title III local currency funds into the country's treasury. With the commencement of the multi-year (FY 1992-1994) Title III program in July, 1992, local currency equivalent of approximately $17.2 million is expected to accumulate by June 1993, as shown by the graph on the following page. The financial information presented in this graph was taken from GOG financial reports which were not audited.



Undoubtedly, these funds will not be fully utilized for their intended purposes unless USAID/Ghana takes swift and decisive monitoring actions by developing an action plan with quantifiable benchmarks, and establishing time frames in coordination with the GOG to facilitate implementation of the local currency financed development activities. Moreover, large amounts of idle funds could be vulnerable to improper use, unless promptly disbursed for their intended purposes.

Management Comments and Our Evaluation

USAID/Ghana concurred with Recommendation Nos. 2 and 3. Since completion of the audit fieldwork, the Mission has reported substantial progress by the Government of Ghana (GOG) in implementing the planned development activities. The Mission stated that the GOG has programmed and disbursed the entire local currency generation of $8.4 million to the implementing organizations responsible for conducting the approved development activities. For example, the Department of Feeder Roads had expended $3.4 million out of the $4.5 million in local currency programmed and has upgraded 172 kilometers of road. The Crop Services Department has also made substantial progress, having expended approximately $525,000 of the $1 million in local currency programmed. Moreover, in May 1993, the GOG selected two local non-governmental organizations (NGO) to implement planned development activities and disbursed $840,000 in local currency programmed. The $2 million in local

currency, previously earmarked for the Economic Policy Institute, has since been reprogrammed and disbursed to the Department of Feeder Roads because the Economic Policy Institute is not expected to be fully operational before several months.

USAID/Ghana also reported substantial progress in implementing Recommendation No. 3. Since issuance of our draft report, the Mission has been working with the GOG to establish a workplan with quantifiable benchmarks and timeframes to implement planned development activities. Also, the Mission intends to undertake semi-annual progress reviews of those activities in conjunction with the GOG Technical Review Committee.

Based on the actions reported by USAID/Ghana, Recommendation Nos. 2 and 3 are hereby resolved. We will consider closure upon receipt of documentary evidence from the Mission showing 1) the expenditures incurred and the progress accomplished by the Department of Feeder Roads, the Crop Services Department and the local NGOs in implementing planned development activities, 2) a copy of the GOG workplan which includes bench marks and timeframes to accomplish the planned activities, and 3) copies of GOG progress reports documenting progress made under the above workplan.

Did USAID/Ghana follow A.I.D. policies, procedures, Public Law 480 and other applicable regulations in monitoring the follow-up of losses and spoilage of Title III commodities and recovery of related claims?

USAID/Ghana followed A.I.D. policies, procedures, P.L. 480 and other applicable regulations in monitoring and following up losses and spoilage of Title III commodities and recovery of related claims.

A.I.D. Handbook 9, Chapter 7 states that A.I.D. Missions have primary responsibility for identifying and establishing on a timely basis all claims arising from the loss, damage, or improper use of donated commodities, including actions on claims arising from such situations. The Mission had in place a monitoring system to facilitate identifying, reporting and following up commodity losses and filing claims resulting therefrom.

USAID/Ghana had assigned an employee to routinely review and follow up the shipping and forwarding agent's reports and monitor the transfer of Title III commodities from the vessels at ports of discharge to the authorized Government of Ghana (GOG) representatives responsible for receiving, storing and selling the commodities.

The audit showed that no inland losses occurred in Ghana since inception of the Title III program in June, 1991. Consequently, no claims were filed. We believe that USAID/Ghana has an effective monitoring system to identify and follow-up on Title III commodity losses should they occur.

Did USAID/Ghana follow A.I.D. policies, procedures, Public Law 480 and other applicable regulations in ensuring that required audits were performed under the Title III program agreements?

USAID/Ghana **did not follow** A.I.D. policies, procedures, Title III agreement provisions and applicable regulations on audit requirements under the P.L. 480 Title III programs.

For the one-year (FY 1991) program, the Mission did not obtain required audits of the P.L. 480 local currency funds or of the development activities financed by such funds. For the multi-year (FY 1992-1994) program, the Mission did not ensure that the Government of Ghana (GOG) prepared a required audit plan to facilitate completion of annual audits of receipts and sales of the P.L. 480 commodities as well as the use of local currency funds generated therefrom. These deficiencies are discussed below in detail.

USAID/Ghana Needs To Obtain Timely Audits Required Under The Title III Program Agreements

A.I.D. policies, Title III Program agreements and Federal regulations require audit coverage of the use of P.L. 480 commodities, related local currency funds as well as the programs and activities financed by such funds. However, none of the required audits was performed because the GOG did not comply with the applicable Title III agreement provisions and USAID/Ghana assigned a low priority to this requirement. Consequently, A.I.D. lacks reliable and independent assurance that P.L. 480 Title III commodities and local currencies resulting from sale of such commodities were used for their intended purposes.

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

4.1 coordinate with the Government of Ghana to expeditiously arrange for audits mandated by the P.L. 480 Title III program agreements; and

4.2 require the Government of Ghana to establish an audit plan to facilitate preparing scopes of work, scheduling, contracting for, and monitoring the quality of the above audits.

OMB Circular No. A-73 states that Federal Agencies are responsible for audit coverage of their programs to determine whether resources are managed economically and efficiently and intended program results are achieved.

A.I.D.'s Policy Determination No. 5, issued in October, 1987 and a supplemental guidance (State cable No. 204855), issued in June, 1991 emphasized the importance of periodic audits

of the generation and use of the P.L. 480 local currency funds and the development activities financed therefrom.

Recognizing the importance of audits as a management tool, both the one-year (FY 1991) and multi-year (FY 1992-1994) P.L. 480 Title III program agreements incorporated comprehensive audit provisions. Sections 2.4 and 3.1 of the one-year agreement required the GOG to have periodic audits of the P.L. 480 local currency account as well as the projects and activities financed by local currency. Similarly, Sections A-1.5 and C-5.3 of the multi-year agreement required the GOG to prepare an audit plan and schedule annual audits of the P.L. 480 multi-year Title III program in accordance with U.S. Government auditing standards.

Despite such comprehensive and stringent audit requirements, the GOG did not take the required actions. **As of January, 1993, some 14 months after the initial deposit of the P.L. 480 local currency sales proceeds, no audits had been performed and an audit plan had not been established.** USAID/Ghana and GOG officials informed us that the first audit is planned for in March, 1993. However, at the conclusion of our field work on January 29, 1993, the GOG had neither finalized a scope of work nor contracted with a professional firm to conduct the audit.

The required audits were not conducted because the GOG did not comply with the Title III agreement provisions and USAID/Ghana did not assign a high priority to this function. According to cognizant Mission officials, the Title III program activities had not made sufficient progress to justify an audit. They stated that several activities were behind schedule and some had not even begun because of technical problems.

We do not concur with the Mission's rationale because we believe that some of the key program activities such as receipt and sale of the Title III commodities and generation of local currency therefrom had made sufficient progress to justify an audit. As of January 1993, the FY 1991 program earmarked some $8.4 million in local currency from Title III commodity sales of which approximately $2.6 million had been disbursed. An audit is therefore overdue and further delays could have serious consequences. Without an audit, USAID/Ghana lacks an independent and reliable assurance that the Title III foodgrains were properly received, stored and sold; local currency sales proceeds were satisfactorily accounted for; and the funds were used solely for their intended purposes. Moreover, an audit reduces the possibility that a large amount of idle local currency funds, as is the case with the Ghana P.L. 480 program, would be misused. It is therefore imperative that the Mission coordinate with the GOG to plan for and schedule the required audits.

Management Comments and Our Evaluation

USAID/Ghana stated that the GOG, in coordination with the Mission, has finalized a plan for the initial financial audit of the P.L. 480 Title III Program. The audit is to be carried

out by an international firm of chartered accountants under contract to the GOG Ministry of Finance and Economic Planning.

Also, in coordination with the Mission, the GOG has developed an audit plan providing for annual financial audits for the entire life of the PL-480 Title III Program.

Based on the actions reported by USAID/Ghana, Recommendation Nos. 4.1 and 4.2 are hereby resolved. We will consider closure upon receipt of evidence from the Mission of regard to the initial financial audit under the FY 1991 program agreement and the audit plan required under the Multi-Year (FY 1992-1994) Program agreement.

SCOPE AND METHODOLOGY

The Office of the Regional Inspector General for Audit, Dakar, audited USAID/Ghana's one-year (FY 1991) and the multi-year (FY 1992-1994) P.L. 480 Title III programs in accordance with generally accepted government auditing standards. The audit covered the systems and procedures relating to (1) planning and authorizing the Title III programs; (2) receipt, storage and sale of the P.L. 480 Title III commodities; (3) generation, deposit, programming and use of the local currency sales proceeds; (4) monitoring losses and spoilage of P.L. 480 commodities and recovery of related claims; and (5) carrying out required audits under the Title III program agreements.

Field work was conducted at Accra, Ghana, from October 1,1992 to January 28, 1993 at the offices of USAID/Ghana, the GOG Ministry of Finance and Economic Planning, the GOG Auditor General and the Controller Accountant General, the local selling agents and buyers of the P.L. 480 commodities.

We reviewed documentary and testimonial evidence and interviewed cognizant officials from the above organizations. Evidence reviewed included P.L. 480 Title III program agreements and related documents; the Title III legislation and applicable A.I.D. guidance; GOG-prepared financial and management reports on the generation, programming and use of P.L. 480 local currency; and reports on P.L. 480 commodity shipping and storage. We also assessed internal controls relating to 1) planning and authorizing the Title III Programs in Ghana; 2) the receipt, storage, sale and use of the PL-480 commodities; 3) monitoring commodity losses and spoilage, and 4) generation, depositing, programming and use of the local currency sales proceeds. In addition, we determined compliance with applicable A.I.D. policies, procedures as well as pertinent laws and regulations.

To determine the adequacy of the storage conditions and the use of the P.L. 480 commodities, we inspected those commodities at the warehouses and the production facilities of the local millers. Because of the limited number of P.L. 480 commodity shipments during the audit period, our tests covered the entire shipment of 69,000 metric tons of rice and wheat, valued at $17 million, as well as the generation, deposit, programming and use of the local currency sales proceeds of approximately $10.6 million.

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JUL 6 1993

MEMORANDUM

TO: Mr. Thomas B. Anklewich, Regional Inspector General/Audit, Dakar, Senegal

FROM: USAID/Ghana Director, Joseph B. Goodwin

SUBJECT: Mission Comments - Draft Audit Report of USAID/Ghana P.L. 480 Title III Program

REF: Anklewich/Goodwin Memo, 4/23/93

DATE: June 11, 1993

USAID/Ghana has reviewed the subject draft audit report covering its P.L. 480 Title III program made up of the 1991 single-year agreement and the 1992-1994 multi-year agreement between USAID and the Government of Ghana (GOG).

Mission comments are tied to the recommendations contained in the draft audit report, and are as follows:

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

1.1 require the Government of Ghana (GOG) to establish a separate, interest-bearing bank account designated solely for deposits and withdrawals of P.L. 480 local currency sales proceeds;

This recommendation relates solely to the 1991 single-year agreement in which Title III commodities sold by the GOG/its agents resulted in programmable local currency generations.

GOG monetary receipts from any source are deposited in the Government's accounts at the central bank, the Bank of Ghana. These are commingled, non-interest bearing accounts.

A separate Bank of Ghana account was not established in which to deposit the local currency sales proceeds/generations resulting from sales of the 1991 Agreement Title III commodities. The Government of Ghana is now taking action to resolve this part of the recommendation; i.e., all undisbursed balances are being disbursed to the respective GOG implementing departments or to NGOs operating in Ghana to carry out approved development activities that were mutually programmed by USAID and the GOG.

These implementing entities are able to establish interest-bearing accounts at commercial banks operating in Ghana.

The relevant implementing entities; i.e., the Department of Feeder Roads of the Ministry of Roads and Highways, the Crops Services Department of the Ministry of Agriculture, and selected NGO's, have now received all funds programmed under the 1991 single-year Title III agreement, including the final deposit of the local currency equivalent of $150,000 in uncollected sales proceeds at the time of the RIG audit (see Attachments 3, 6-9). These funds have been deposited into separate interest-bearing accounts at commercial banks. The breakout of the programmed and disbursed funds is as follows:

Nature of Activity	Amount Programmed and Disbursed (Millions of Dols and Cedis)
Feeder Road Rehabilitation	$6.50 ¢2,470
Crop Services	$1.05 ¢ 400
Non-Governmental Organizations	$0.84 ¢ 319
Total	$8.39 ¢3,189

A portion of the originally programmed cedis was re-programmed in April and June 1993 (see attachments 1 and 4). The local currency equivalent amount of $2 million (760 million cedis) originally programmed for the economic policy institute, the Centre for Policy Analysis, has been reprogrammed to the Department of Feeder Roads as the Centre does not possess a financial management system with which to manage funds at this time as a result of its recent establishment. The GOG will make available an equivalent amount at a later date when these organizational deficiencies have been resolved. Further, the local currency equivalent amount of $50,000 (19 million cedis) originally programmed for monitoring, evaluation and audits, and an additional 1 million cedis from GOG sources, has also been reprogrammed, 10 million cedis to the Crop Services Department and 10 million cedis to the Department of Feeder Roads, for their program activities. Scopes of work for audits and an evaluation have just been prepared, and these activities will be undertaken over the next two months. The GOG has committed itself to make the necessary funds available for this purpose from its resources.

In addition to the disbursement of these programmed amounts, the GOG deposited the local currency equivalent of $533,000 in foregone interest income (some 203 million cedis) recommended by RIG/A/DAKAR, plus an additional 37 million cedis representing additional interest accruing from December 15, 1992, to June 7, 1993 (see Attachments 10 and 11). These amounts have also been programmed for feeder road rehabilitation, and disbursed to the DFR.

Inasmuch as all generations under the FY 1991 agreement have now been disbursed, there is no further need for the GOG to establish a separate, interest-bearing account.

1.2 reconcile the P.L. 480 Bank account statements to the GOG financial reports relating to receipts and disbursements of Title III local currency on a quarterly basis; and

Inasmuch as the GOG failed to establish a separate bank account for the deposit and disbursement of the local currency sales proceeds resulting from the sale of the Title III commodities provided under the 1991 agreement, it will not be possible to perform the recommended reconciliation.

However, the mission has assured that an audit objective is included in the GOG Audit Plan (see comments to Recommendation No. 4, below) to obtain other evidential matter to verify and substantiate that deposits and disbursements recorded in the books of account maintained for the 1991 P.L. 480 Title III agreement sales proceeds/local currency generations by the GOG Controller and Accountant-General's Department agree with the sales revenue received under the terms of that agreement, less expenses of the sales.

The GOG has been requested to provide a full accounting to USAID on this matter when the audit is completed.

1.3 require the GOG to deposit the local currency equivalent of $683,000 into the above bank account to make up for the $150,000 in uncollected sales proceeds and $33,000 in unrealized interest income.

As indicated above, the Government of Ghana has deposited, mutually programmed with the Mission, and disbursed the recommended monetary recovery of $533,000 representing RIG's claimed unrealized interest income, plus an additional amount for interest accrued since December 15, 1992 (see Attachments 10 and 11).

The GOG has also now received and disbursed the local currency equivalent of $150,000 (see Attachment 3) in uncollected sales proceeds from its sales agent, the Ghana National Procurement Agency (GNPA).

Based on these actions, the Mission requests that recommendations 1.1, 1.2, and 1.3 be considered resolved and closed upon issuance of the final audit report.

Recommendation No. 2: We recommend that the Director, USAID/Ghana, suspend or postpone further P.L. 480 Title III commodity shipments to Ghana until disbursements of local currency funds under the FY 1991 Title III program have been completed and substantial progress has been made on planned development activities.

As indicated above, all local currency sales proceeds/generations arising from the FY 1991 Title III commodities have been received, programmed, and disbursed to the implementing entities conducting the approved development activities provided for in the FY 1991 agreement.

It is the Mission's position that substantial progress has been made in undertaking the planned development activities called for under the FY 1991 Title III Agreement.

Progress related to Feeder Road rehabilitation is provided in the attached progress report from the Department of Feeder Roads (DFR)-Attachment 12. Prior to the reprogramming on April 23 and June 7, 1993, of funds earmarked for monitoring, evaluation and audit, and for the Center for Policy Analyses, as well as the payment to DFR of accrued interest, two disbursements had been made to the DFR from the FY 1991 Agreement, one in August 1992, for $1.84 million in local currency equivalent (700 million cedis), and a second in January 1993, for $2.63 million in local currency equivalent (1000 million cedis). These two disbursements totalled some $4.5 million cedi equivalent, the amount programmed for the DFR under the 1991 program. As the attached progress report indicates, as of the end of April 1993, 1,295 million cedis (approximately $3.4 million in dollar equivalent) had been expended, or approximately 73 percent of the total made available. With these resources, 172 kilometers of road had been made accessible by the end of April 1993; i.e., had been rehabilitated, received spot improvement, etc. This represents approximately 70 percent of the total kilometers of road which will be rehabilitated utilizing FY 1991 agreement funds. Given that this work has been accomplished over a seven month period, it represents substantial progress by the DFR.

Funds have been provided to the GOG Ministry of Agriculture, Crop Services Department (CSD), to help finance the ongoing national seed and fertilizer program. A total of $1.05 million in local currency equivalent (some 400 million cedis) was programmed for this work. In August 1992, a disbursement was made to the Crop Services Department of 300 million cedis, or the local currency equivalent of approximately $790,000. As the attached progress report from the Crop Services Department indicates (Attachment 13), as of the end of April 1993, approximately 200 million cedis had been expended, or 66 percent of the total disbursed. The activities carried out relate to the privatization of the fertilizer and seed markets, and include the production of breeder seed; training for seed growers, seed dealers, and fertilizer dealers; setting-up a seed inspection unit; etc. As in the case of feeder roads, substantial progress has been made over this 7-8 month period.

Under the Title III program, up to 10 percent of the value of the commodities sold is to be utilized to develop a program to assist non-governmental organizations (NGOs) which are involved, through their constituent members, in non-traditional exports, or whose members might become involved in such export activities. The GOG Ministry of Finance and Economic Planning (MFEP) is responsible for putting in place procedures for soliciting proposals from NGO's, evaluating those proposals, and awarding grants for the selected activities. In January 1993, the MFEP published its solicitation notice for NGO's to submit proposals. A selection committee was established and proposals submitted by eleven NGO's were reviewed. Because the proposals varied a great deal in substance and detail, the MFEP went back to several of the NGO's seeking additional clarification on their respective proposals. In May 1993, the selection committee chose two NGOs, Aid to Artisans/Ghana and Technoserve/Ghana, to receive the initial grants. The cedi disbursements, which have now been made and total some 319 million cedis, utilize the full $840 thousand programmed for

NGO activities under the FY 1991 Title III program agreement.

Before funds could be granted to an economic policy institute, it was necessary to undertake a study to determine the appropriate structure of such an institute, its legal and administrative requirements, the procedures for its establishment, and its funding. Further, it had to be shown that the capability existed to put in place appropriate accounting and management systems. Such a study was undertaken during the second half of 1992, and the institute, referred to as the Centre for Policy Analysis (CEPA), was incorporated under Ghanaian law on January 5, 1993.

A council (the board of directors) has since been selected and installed; an office building has been obtained and is now being renovated and furnishings/equipment are being procured; and work is progressing with staff selection and development of organizational policies, procedures, and practices (financial, personnel, contracting/procurement, internal controls, etc.) in anticipation of commencing future operations.

However, given the need for timely programming and disbursement of P.L. 480 Title III local currency generations, as emphasized by RIG/A/DAKAR in its draft audit report, the GOG has reprogrammed and disbursed the full amount of $2 million in local currency equivalent to the department of feeder roads where it can be most efficiently and effectively utilized on a current basis. This was done in recognition of the fact that it would be several months hence before the Centre would be in a position (organized, staffed, and functioning) to receive/disburse funds and properly account for them, or to commence policy analysis studies.

The first shipment of the commodity (wheat) under the FY 1991 Title III agreement was not discharged until November 1991, and the second not until February 1992. These shipments were delayed a number of months from the requested dates in the calls forward submitted to AID/W by the Mission. This, together with the fact that the millers were given 90 days to pay the importer (the Ghana National Procurement Agency - GNPA), slowed the generation of cedis available for programming, and subsequent implementation, of development activities.

Given all of these factors, the mission believes that substantial progress has been made in carrying out the development activities called for under the FY 1991 Title III agreement, and that there is no need to suspend or postpone further PL 480 Title III commodity shipments.

Accordingly, the mission requests that the recommendation be considered resolved and closed upon issuance of the final audit report.

Recommendation No. 3: **We recommend that the Director, USAID/Ghana, in coordination with the Government of Ghana:**

3.1 establish a workplan with quantifiable benchmarks and time frames for implementing planned development activities financed with Title III local currency funds; and

The Mission concurs in this recommendation and is currently working with the GOG to address it. The Mission will submit documentary evidence in support of

closure at the appropriate time after issuance/receipt of the final audit report.

3.2 periodically review progress of the above workplan and modify or reprogram local currency funds for alternative development activities, as deemed necessary.

Again, the mission concurs. Periodic (semi-annual) progress reviews have been and will continue to be undertaken in conjunction with the (GOG) Program Technical Committee, as was done in the recent case when local currencies were reprogrammed.

In light of this, as well as the Mission's comments under Recommendation No. 2, Above, the mission requests that this recommendation be considered resolved with issuance of the final audit report and closed upon submission of the workplan.

Recommendation No. 4: We recommend that the director, USAID/Ghana:

4.1 coordinate with the Government of Ghana (GOG) to expeditiously arrange for audits mandated by P.L. 480 Title III program agreements; and

The GOG, in coordination with the Mission, has finalized its audit plan for the conduct of the initial audit of the Title III program agreements covering the financial statements, the financial management and internal control systems, and compliance with the governing rules and regulations, and terms of the agreements. This, and future audits, will cover all aspects of the program from landing of the Title III commodities at the Ghanaian port of entry through final expenditure by implementing entities in conducting approved program development activities. The initial audit is to be conducted (tentatively) by the local office of the major international firm of chartered accountants of Pannell, Kerr, Forster, under contract to the GOG Ministry of Finance and Economic Planning (tentative alternative firm, Price Waterhouse/Accra).

Attached is the GOG's audit plan for this initial audit of the Title III program (see Attachment 14).

4.2 Require the GOG to establish an audit plan to facilitate preparing scopes of work, scheduling, contracting for, and monitoring the quality of the above audits.

In coordination with the Mission, the GOG has prepared a life-of-program audit plan for the Title III program providing for annual financial audits, et. al., through final expenditure of funds by the implementing entities for approved development activities, and which covers the points noted in RIG/A/Dakar's recommendation. Attached is a copy of the audit plan (see Attachment 14).

The mission requests that recommendations 4.1 And 4.2 be considered resolved and closed with issuance of the final audit report.

APPENDIX III

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