

**Regional Inspector General for Audit
Dakar**

**Audit of
USAID/Ghana's Cash Transfer Program**

**Audit Report No. 7-641-94-006
February 28, 1994**



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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON DC 20523

February 28, 1994

INTERNATIONAL ADDRESS
RIG/DAKAR
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B.P 49 DAKAR SENEGAL
WEST AFRICA

MEMORANDUM

To: Joseph Godwin, Director, USAID/Ghana
Walter E Shepherd Acting for

From: Thomas B. Anklewich, RIG/A/Dakar

Subject: Audit of USAID/Ghana's Cash Transfer Program, Audit Report Number
7-641-94-006

Enclosed are five copies of the subject report. We have reviewed your comments in response to our draft report and have taken them into consideration in preparing this report. Your comments are included in their entirety in Appendix II.

We appreciate the prompt and positive response of your office to the draft report. Based on your comments and actions to date, Recommendation Nos. 2.2, 3.2, and 3.3 are closed on report issuance. Recommendation Nos. 1, 2.1, 2.3, and 3.1 are resolved. These recommendations can be closed upon receipt of evidence that planned actions have been completed.

Please notify our office within 30 days of the Mission's progress towards implementing the open recommendations, including documentation supporting any completed actions so that we may consider closure.

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

Attachments: A/S

EXECUTIVE SUMMARY

Introduction

Cash transfers involve the release of funds to a cooperating government to make changes in its policies or methods of operation that, when accomplished, are intended to cause improvements in certain development sectors such as agriculture, education, or health. In Ghana, USAID had three programs with cash transfer components. These were the Trade and Investment Program, the Primary Education Program, and the Family Planning and Health Program. Total funding for these three programs was \$105 million, and as of August 10, 1993, USAID/Ghana had obligated \$57.3 million and disbursed \$32 million.

Audit Objectives

The Office of the Regional Inspector General for Audit/Dakar completed a performance audit of USAID/Ghana's Cash Transfer program as provided in its approved fiscal year 1993 audit plan. The audit field work was conducted from August 9 through October 22, 1993, and it was designed to answer the following three objectives:

1. **Did USAID/Ghana ensure that the release, deposit, use, and audit of cash transfer dollars were in compliance with the provisions of the cash transfer agreements and USAID policies and procedures?**
2. **Did USAID/Ghana follow USAID policies and procedures in monitoring and evaluating the cash transfer programs to ensure the host country implemented the stabilization and policy reforms in accordance with the cash transfer agreements?**
3. **Did USAID/Ghana follow USAID policies and procedures in monitoring whether local currency was deposited, programmed, and used in accordance with the cash transfer agreements and USAID policies and procedures?**

Summary of Audit

The audit showed that:

- USAID/Ghana generally ensured that the release, deposit, use, and audit of cash transfer dollars were in compliance with the provisions of the cash transfer agreements and USAID policies and procedures. However, neither of the two cash transfer tranches (disbursements) for the Family Planning and Health Program (FPHP), totalling \$8 million, nor the first tranche of \$4 million under the Primary Education Program (PREP) were deposited into interest-bearing accounts. Instead, they were deposited into a non-interest-bearing demand deposit account. However, when cash transfers were deposited into an interest-bearing account, the interest earned was not credited to the program local currency account (see page 4).
- The Mission followed USAID policies and procedures in monitoring and evaluating the cash transfer programs to ensure the host country implemented the stabilization and policy reforms in accordance with the cash transfer agreements (see page 7).
- USAID/Ghana generally followed USAID policies and procedures in monitoring whether local currency was deposited, programmed, and used in accordance with the cash transfer agreements and USAID policies and procedures. However, the Mission's financial monitoring of the FPHP was less than adequate. As a result, approximately \$116,000 worth of local currencies were not available for project use due to not crediting the local currency account for the prevailing exchange rate during conversion from U.S. dollars to local currencies (see page 10).

Audit Recommendations

The audit makes three recommendations for corrective actions. USAID/Ghana should:

- Establish procedures to ensure that future cash transfer tranches are deposited into interest-bearing accounts, determine the amount of lost interest (estimated at \$10,000) for the two tranches under the FPHP and for the first tranche under the PREP, and require the Government of Ghana to deposit the equivalent of the lost interest into the FPHP and PREP interest-bearing accounts (see page 5).
- Establish procedures to ensure that all interest earned from the dollar cash disbursements is credited to the program local currency accounts, determine the amount of earned interest (estimated at \$15,000) from the PREP account which was not credited to the program's local currency account, and require the

Government of Ghana to deposit the Ghanaian local currency equivalent of the earned interest into the PREP local currency account (see page 6).

- Remind Mission personnel of their responsibilities to follow USAID/Ghana's internal procedures to track and maintain records on all local currency generations into and out of local currency accounts, determine the amount of local currency lost (estimated at \$116,000) for the FPHP during conversion from U.S. dollars to cedis, and request that the Bank of Ghana deposit the U.S. dollar equivalent in local currency which was lost during conversion (see page 12).

Although we realize that some of these amounts may not be monetarily significant, we do believe that it is important that USAID/Ghana have systems in place and that these systems are used to prevent potential losses such as those described above from occurring again in the future. This is especially important considering that more than \$70 million in future cash transfers are planned for the Mission's current cash transfer portfolio.

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) contacted the relevant Government of Ghana implementing agencies of the Family Planning and Health Program (FPHP) requiring that subsequent dollar cash transfers be deposited in interest-bearing accounts; 2) agreed to require the Government of Ghana to deposit an equivalent amount of local currency, representing lost interest, into the appropriate local currency program accounts; 3) assigned the financial analyst the responsibility for the tracking and monitoring of all dollar cash transfer disbursements; 4) sent a letter to the Government of Ghana requiring that it deposit the local currency equivalent of \$28,000, representing earned interest, into the Primary Education Program (PREP) local currency account; 5) begun rewriting a mission order for Mission personnel for following established procedures for tracking all local currency generations into and out of local currency accounts; and 6) effected the transfer of the local currency equivalent of \$116,000, representing a shortfall in local currency generations under the FPHP, by the Bank of Ghana to the Ministry of Finance and Economic Planning.

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

Office of the Inspector General

Office of the Inspector General
February 28, 1994

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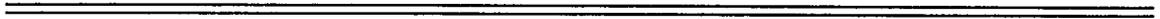
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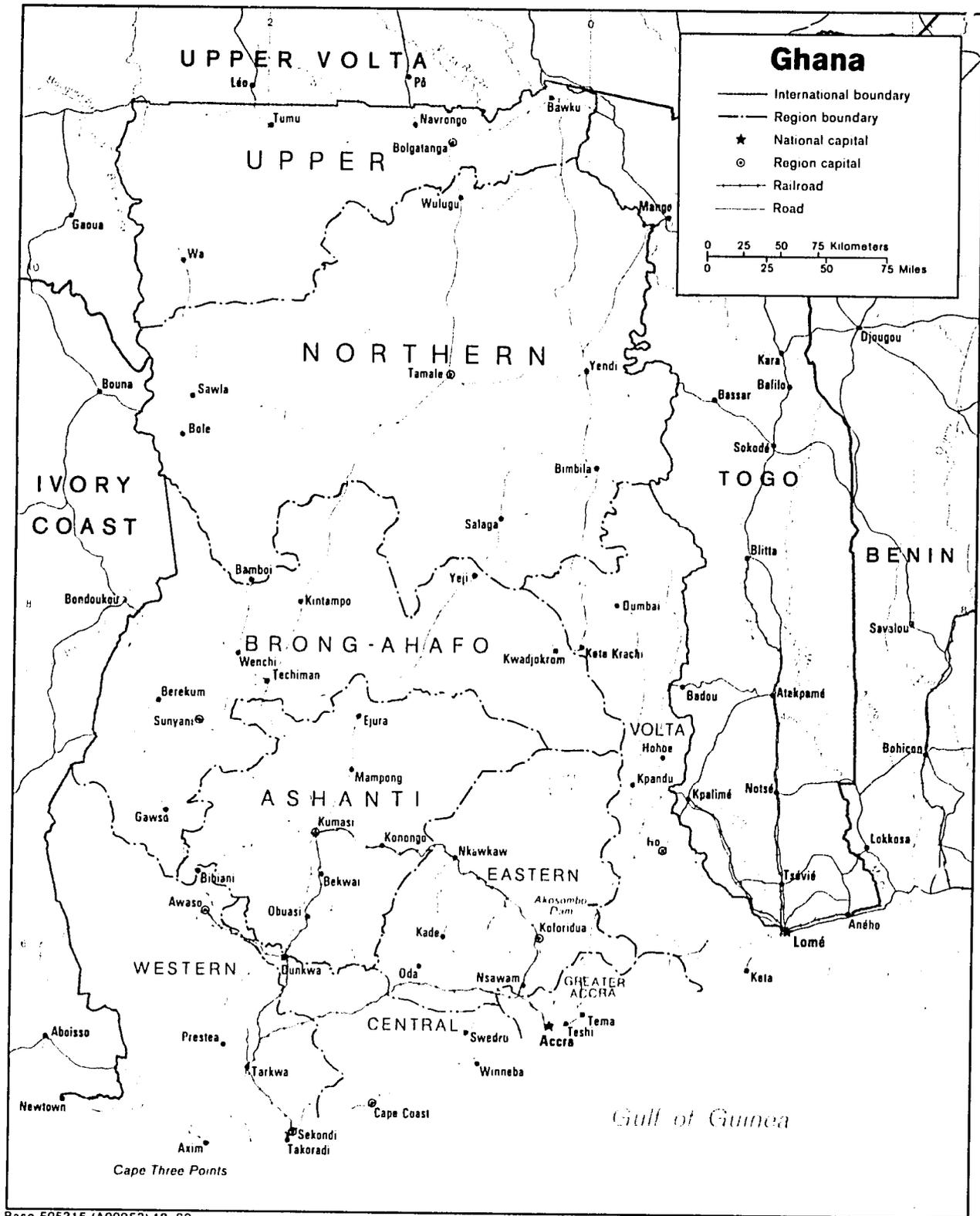
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INTRODUCTION

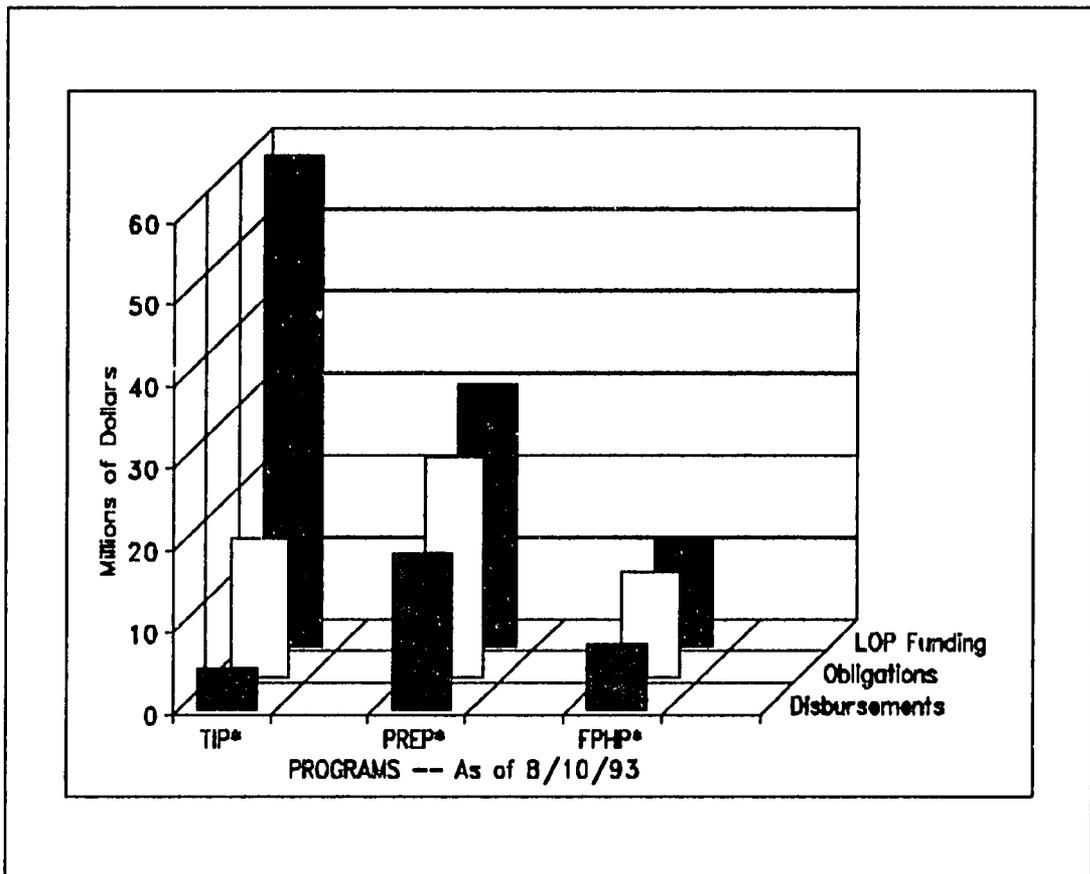
Background

One category of assistance which USAID provides to client countries is nonproject assistance. Nonproject assistance involves the transfer of U.S. resources through loans or grants to a cooperating government, independent of a specific project. This assistance generally takes the form of commodities or cash (U.S. dollars) and may be focused on a particularly disadvantaged development sector, such as health, agriculture, or education. However, the primary purpose of the nonproject assistance is usually to encourage the recipient government to make changes in its policies or methods of operation that, when accomplished, are intended to cause improvements in the focus sector.

During the period of our audit, USAID/Ghana had three programs with cash transfer components. These were the Trade and Investment Program (TIP), started on September 30, 1992, the Primary Education Program (PREP), started on July 18, 1990, and the Family Planning and Health Program (FPHP), started on April 25, 1991. USAID/Ghana had approved Life of Program funding of \$60, \$32, and \$13 million, respectively, in cash transfers for these three programs.

As the chart on the next page illustrates, as of August 10, 1993, USAID/Ghana had authorized Life of Program funding of \$105 million for the three programs, had obligated \$57.3 million and had disbursed \$32 million. Before these transfers could be made, the Government of Ghana (GOG) was to undertake certain policy reforms which were made conditions precedent in the respective grant agreements.

Cash Transfers to the Government of Ghana



TIP: Trade and Investment Program
PREP: Primary Education Program
FPHP: Family Planning and Health Program

Audit Objectives

The Office of the Regional Inspector General for Audit/Dakar completed a performance audit of USAID/Ghana's Cash Transfer Program as provided in its approved fiscal year 1993 audit plan. The audit was designed to answer the following three objectives:

- 1. Did USAID/Ghana ensure that the release, deposit, use, and audit of cash transfer dollars were in compliance with the provisions of the cash transfer agreements and USAID policies and procedures?**
- 2. Did USAID/Ghana follow USAID policies and procedures in monitoring and evaluating the cash transfer programs to ensure the host country implemented the stabilization and policy reforms in accordance with the cash transfer agreements?**

3. **Did USAID/Ghana follow USAID policies and procedures in monitoring whether local currency was deposited, programmed, and used in accordance with the cash transfer agreements and USAID policies and procedures?**

Appendix I discusses the scope and methodology of this audit. USAID/Ghana's comments to the draft report are included in their entirety as Appendix II.

REPORT OF AUDIT FINDINGS

Did USAID/Ghana ensure that the release, deposit, use, and audit of cash transfer dollars were in compliance with the provisions of the cash transfer agreements and USAID policies and procedures?

USAID/Ghana generally ensured that the release, deposit, use, and audit of cash transfer dollars were in compliance with the provisions of the cash transfer agreements and USAID policies and procedures. However, three tranches (disbursements) were not deposited into interest-bearing accounts, and some earned interest on other tranches was not transferred into the Grantee's program account.

The Mission ensured that the conditions precedent for the relevant tranches had been met before releasing the cash transfer disbursements to the Government of Ghana (GOG). As of August 10, 1993, the Mission had disbursed six tranches totalling \$32 million for the three programs in the Mission's portfolio with cash transfer components. These programs were the Trade and Investment Program (TIP), one tranche of \$5 million; the Primary Education Program (PREP), three tranches totalling \$19 million; and the Family Planning and Health Program (FPHP), two tranches totalling \$8 million.

USAID Handbook 1, Part IV and the grant agreements between the U.S. Government and the GOG required the GOG to deposit the U.S. dollar cash disbursements into interest-bearing accounts in a United States bank, and also stipulated the acceptable uses of the interest earned from these accounts. While these requirements were generally met, the two tranches under the FPHP and the first tranche under the PREP were not deposited in interest-bearing accounts. Also, although the next two tranches under the PREP were deposited into an interest-bearing account, the interest earned was neither converted nor credited to the PREP local currency account. These issues are discussed in detail in the following section.

**USAID/Ghana Should Ensure That Agreements
and USAID Policies are Followed Concerning
Interest-Bearing Accounts and Interest Use**

USAID guidelines and the grant agreements between the U.S. Government and the GOG required the GOG to deposit the U.S. dollar cash disbursements into interest-bearing accounts in a United States bank. The grant agreements also stipulated the acceptable uses of the interest earned from these accounts. However, the GOG did not follow these requirements in two cases. This occurred because USAID/Ghana had no procedures in place to ensure that dollar cash transfers were deposited into interest-bearing accounts, or to ensure that earned interest from these interest-bearing accounts was credited to programs' local currency accounts. As a result, we estimate that approximately \$5,000 in interest to the Primary Education Program and an additional estimated \$5,000 in interest to the Family Planning and Health Program accounts were lost to the respective programs. In addition, an estimated \$15,000 in earned interest from the Primary Education Program was not available for the program's use.

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

- 1.1 establish procedures to ensure that future cash transfer disbursements are deposited into interest-bearing accounts as stipulated by USAID regulations;**
- 1.2 determine the amount of lost interest (estimated at \$5,000 each) for the first two tranches under the Family Planning and Health Program and the first tranche under the Primary Education Program, which were deposited into non interest-bearing accounts; and**
- 1.3 require the Government of Ghana to deposit the Ghanaian cedi equivalent of the lost interest into the Family Planning and Health and Primary Education program accounts.**

Recommendation No. 2: We recommend that the Director, USAID/Ghana:

- 2.1 establish procedures to ensure that all interest earned from the dollar cash disbursements is credited to the program local currency accounts;**
- 2.2 determine the amount of earned interest (estimated at \$15,000) from the Primary Education Program account which was not credited to the program's local currency account; and**
- 2.3 require the Government of Ghana to deposit the Ghanaian cedi equivalent of the earned interest into the Primary Education Program local currency account.**

USAID Handbook 1, Part IV and the grant agreements between the U.S. Government and the GOG require that U.S. dollar cash disbursements be deposited into interest-bearing accounts. USAID Handbook 1 not only states that it is Agency policy that agreements should state that accounts are to be interest-bearing, but also states that any interest earned must be programmed and used as if it were principal.

The audit found, however, that neither the first disbursement of \$4 million under the Primary Education Program (PREP) nor the two disbursements totalling \$8 million under the Family Planning and Health Program (FPH) were deposited into interest-bearing accounts. Instead, they were deposited into a demand-deposit (checking) account. GOG officials told us that they had anticipated using the dollars immediately, and therefore, did not find it necessary to have an interest-bearing account. However, the \$4 million PREP disbursement remained in the account for 19 days before conversion to Ghanaian cedis, and the two tranches of \$3 million and \$5 million under the FPH, remained in the account for 19 and 8 days, respectively, before conversion to local currency.

Using a very conservative interest rate of two percent, we estimate that interest lost to the programs was approximately \$5,000 for each of the two programs, or a total of \$10,000, interest which would have been put to use to further the goals of the PREP and FPH programs. Mission managers were not reviewing the bank statements, a situation which we believe contributed to this loss.

The last two U.S. dollar cash disbursements totalling \$15 million under the PREP were deposited into an interest-bearing account. However, the interest earned from these two deposits, estimated at \$15,000, was not converted and credited to the program's local currency account to be used for program purposes. This situation happened primarily because the Mission had no system in place to ensure that dollar cash transfers were deposited into interest-bearing accounts, nor to ensure that earned interest from these interest-bearing accounts was credited to programs' local currency accounts. Although we realize that these amounts may not be monetarily significant, we do believe that it is important that USAID/Ghana have procedures in place to prevent potential losses such

as those described above from occurring again in the future. This is especially important considering that more than \$70 million in future cash transfers are planned for the Mission's current cash transfer portfolio.

Management Comments and Our Evaluation

The Mission agreed with the report's finding and Recommendation No. 1. It is sending a letter to the relevant GOG implementing agencies of the Family Planning and Health Program, requiring that subsequent dollar cash transfers be deposited in interest-bearing accounts. The Mission is also working with the Bank of Ghana to determine the amount of lost interest as a result of the failure of the GOG to deposit the first three tranches of the Primary Education Program and the first two tranches of the Family Planning and Health program into interest-bearing accounts. When a reasonable determination has been made of funds lost, the Mission will require the GOG to deposit an equivalent amount of local currency into the appropriate local currency program accounts. We therefore consider Recommendation No. 1 resolved but open on report issuance. Upon submission of evidence that these corrective actions have been completed, we can close Recommendation No. 1.

It also generally agreed with Recommendation No. 2. The Mission has assigned an individual with responsibility for the tracking and monitoring of all dollar cash transfer disbursements. The total interest earned has been determined, and the Mission is taking steps to get the local currency equivalent of this amount credited to the PREP program's local currency account. Therefore, we consider Recommendation No. 2.2 closed on report issuance. Recommendation Nos. 2.1 and 2.3 remain resolved but open on report issuance, and can be closed upon receipt of evidence that these corrective actions have been taken.

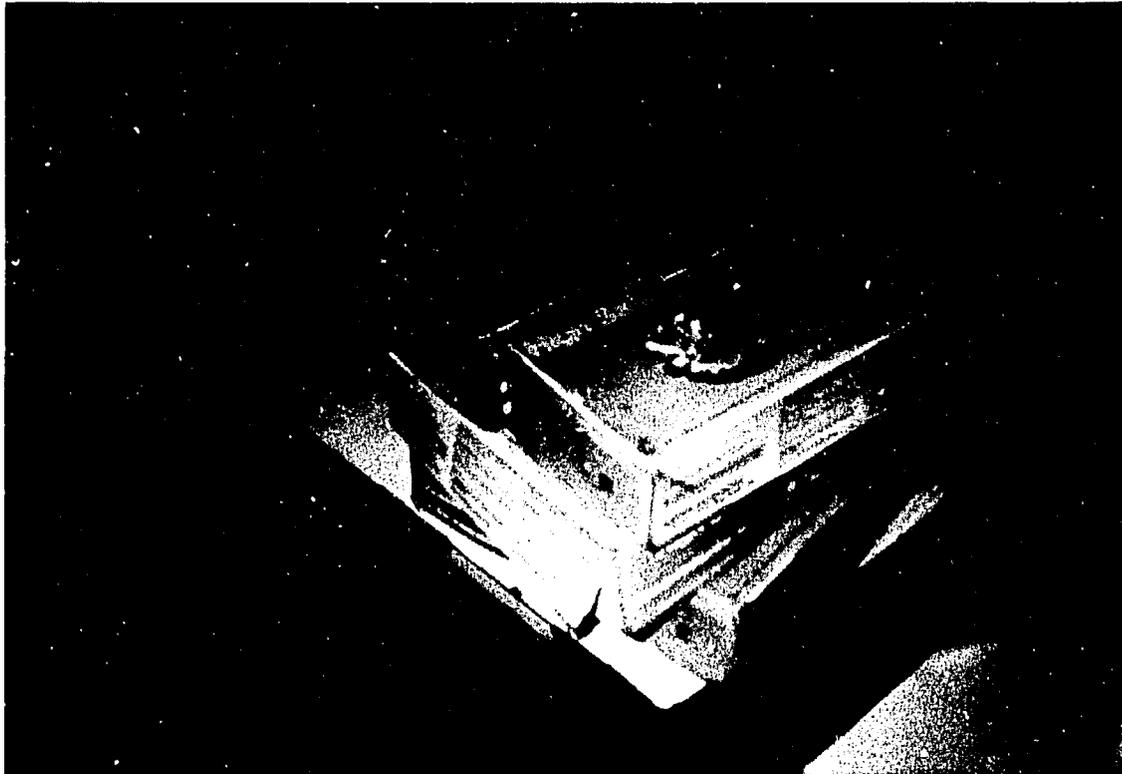
Did USAID/Ghana follow USAID policies and procedures in monitoring and evaluating the cash transfer programs to ensure the host country implemented the stabilization and policy reforms in accordance with the cash transfer agreements?

USAID/Ghana followed USAID policies and procedures in monitoring and evaluating the cash transfer programs to ensure the host country implemented the stabilization and policy reforms in accordance with the cash transfer agreements.

The conditions precedent for the \$60 million Trade and Investment Program agreement, signed on September 30, 1992, required the GOG to: (1) establish a Trade and Policy Unit within the Ministry of Trade and Tourism; (2) allow non-traditional exporters to sell foreign exchange at the highest legal exchange rate; and (3) agree to formulate a strategic plan for the promotion of exports. USAID/Ghana officials verified that the GOG met

these conditions in February 1993. As a result, in May 1993, USAID/Ghana disbursed the first tranche of \$5 million.

The photograph below illustrates a non-traditional exporter who is benefiting from the policy reforms undertaken by the GOG, including reduced regulatory and administrative transaction costs, in fulfillment of the conditions precedent.



A shipment of prawns being prepared for export to Europe (Tema, Ghana, October 1993)

The \$32 million Primary Education Program agreement was signed on July 18, 1990, and as of August 10, 1993, three consecutive tranches of \$4, \$7, and \$8 million totalling \$19 million, had been disbursed. As with the TIP program discussed above, the PREP's program agreement stipulated that the GOG was to: (1) start a pilot program, through the Ministry of Education, to improve equity in the GOG's primary education program; (2) show evidence that the GOG's expenditures for primary education in 1991 were consistent with the 1991 budget for primary education; and (3) implement a plan to decentralize the Ministry of Education. USAID/Ghana obtained and reviewed the evidence submitted by the GOG in fulfillment of these, and other conditions precedent before disbursing the funds.

The following photograph shows a primary school in the Accra area of Ghana which has benefited from the policy reforms, through increased Ministry of Education funding for primary education, initiated by the GOG in fulfillment of the conditions precedent.



A primary school which benefited from the PREP program by receiving textbooks
(Tema, Ghana, October 1993)

The agreement for the \$13 million Family Planning and Health Program was signed on April 25, 1991. As of August 10, 1993, two tranches of \$3 and \$5 million had been disbursed to the GOG. Policy reforms to be undertaken by the grantee in fulfillment of the conditions precedent, included: (1) showing that the essential drugs list had been expanded to include all formulations of oral contraceptives now used in Ghana and that oral contraceptives had been changed from one distribution category to another; (2) revising the regulations to allow the distribution of oral contraceptives by health service providers who had received training offered or approved by the Ministry of Health; and (3) establishing a National Population Authority.

The GOG accomplished these three tasks and met all other conditions precedent for the release of the two tranches. The following photograph shows, for example, a health service provider who is now permitted to distribute oral contraceptives.



A health service provider now permitted to dispense oral contraceptives to a client (Koforidua, Ghana, October 1993)

Did USAID/Ghana follow USAID policies and procedures in monitoring whether local currency was deposited, programmed, and used in accordance with the cash transfer agreements and USAID policies and procedures?

USAID/Ghana generally followed USAID policies and procedures in monitoring whether local currency was deposited, programmed, and used in accordance with the cash transfer agreements and USAID policies and procedures, with one exception regarding the deposit of local currency into the FPHP program account.

The Mission performed financial assessments of the host government entities responsible for managing the special local currency accounts. We found that the assessments were adequately discussed in the relevant program documents and other reports, and addressed all significant aspects of the host government relating to the special accounts, including the deposit, programming, accounting and auditing of these funds. The Mission ensured that the cash transfer agreements contained conditions precedent requiring the establishment of special accounts for local currencies. We found that the host country

had complied with these conditions precedent, and had opened interest-bearing accounts, where applicable, for the local currency generations resulting from the cash transfers.

Further, in 1992, the Mission contracted with the local offices of a U.S.-based public accounting firm to conduct a financial management and internal control systems assessment of the Ministry of Health (MOH). The resulting report, issued in January 1993, concluded that the financial management and financial accounting procedures, and internal control systems at the Ministry of Health (MOH) were not suitable for the requirements of the FPHP. As a result, the Mission contracted with a public accounting firm to design and install satisfactory and acceptable financial management and internal control systems at the MOH, using FPIIP project (641-0118) funds obligated for that purpose. This effort was underway during our fieldwork in Ghana. In the interim, the dollar cash transfers were deposited into a Bank of Ghana (BOG) account in a United States bank. The BOG then transferred the local currency equivalent to the Ministry of Finance and Economic Planning's FPHP account.

However, USAID/Ghana was not monitoring an important financial management aspect of the Family Planning and Health Program (FPH) even though their own procedures required them to do so. Specifically, USAID/Ghana did not ensure that program local currency accounts were properly credited during the currency conversion process as discussed below.

USAID/Ghana Should Ensure That Programs' Local Currency Accounts Are Properly Credited During The Currency Conversion Process

Mission Order Number 1210, dated May 26, 1992, and other Agency guidelines state that the Controller's Office should be maintaining a memoranda accounting system which would have allowed Mission officials to track all local currency generations and their use in fulfilling the Mission's monitoring responsibilities. However, we found that the Controller's Office did not always maintain these memoranda records. Thus, USAID/Ghana was not properly tracking the deposits to, and withdrawals from, the programs' local currency accounts. Because of non-adherence to Agency and Mission procedures, approximately \$116,000 worth of local currency was not credited to the Family Planning and Health Program account during conversion of the first two tranches of U.S. dollars to this program. Since the cognizant USAID/Ghana Controller and Project Officer had been reassigned, we were not able to identify the exact reason why USAID/Ghana did not follow established procedures to adequately monitor the special local currency account during the two tranches of the FPHP.

Recommendation No. 3: We recommend that the Director, USAID/Ghana:

- 3.1 issue a reminder to Mission personnel to follow established procedures for tracking all local currency generations into and out of local currency accounts;**
- 3.2 determine the exact amount of lost cedis (estimated at \$116,000) for the Family Planning and Health Program during conversion from U.S. dollars to cedis; and**
- 3.3 request that the Bank of Ghana deposit, into the Family Planning and Health Program account, the Ghanaian cedis lost during conversion.**

There are several USAID procedures which require Mission managers -- project officers, program officers, project committees, and controller personnel -- to monitor what happens to local currency created through cash transfers. Among these are Chapter 10 of the *USAID Controller Guidebook* and Chapters 8 and 11 of, and Supplement A to, *A.I.D. Handbook 3*. Also USAID/Ghana's Mission Order Number 1210, dated May 26, 1992, titled Program Local Currency Generation, synthesizes some of these overall USAID requirements. Paragraph IV.B. of this Mission Order specifically states that the Mission Controller's Office must maintain "memoranda accounting records" on local currency deposits and withdrawals and reconcile these records monthly with the regular bank statements received from the Government of Ghana's Controller and Accountant General. Handbook 3 and USAID/Ghana's Mission Order Number 1210 also require the Project Officers and Project Committee to take active financial monitoring and reporting roles as well. This active participation is important because of the peculiarities inherent in the process of converting U.S. dollars to Ghanaian cedis.

This conversion process is open, above-board, and used by all the other donors. Nonetheless, some monitoring is required to ensure that the correct amount of cedis is credited to the program account. This conversion process has five steps which are described below.

- The U.S. dollar grant is transferred to the GOG's New York bank account.
- Upon receipt of a cable confirming this transfer, the GOG deposits the amount of Ghanaian cedis equivalent to the U.S. dollar transfer based on that day's exchange rate into the program's special local currency account. *(At this point, the amount of the cedi deposit should be entered in the USAID/Ghana memoranda accounting records under the "Expected Generations" column, per Mission Order No. 1210.)*

- The Bank of Ghana then auctions these dollars and other foreign currency at its weekly **interbank foreign exchange bid auction**. The proceeds of this auction determine the new exchange rate. Thus, the official exchange rate between the U.S. dollar and the Ghanaian cedi constantly changes.
- The Ghanaian Ministry of Finance and Economic Planning notifies USAID/Ghana of the date of the sale and of the new rate. *(This adjusted amount of cedis received is then entered in the USAID/Ghana memoranda records under the "Cedis Generated" column against the specific cash transfer agreement, per Mission Order No. 1210.)*
- The Bank of Ghana makes an upward or downward adjustment to the original deposit in the program's special local currency account to reflect the rate on the day of auction. *(USAID is then responsible for assuring that the GOG has made the proper adjustments to the program's special local currency account, per Mission Order No. 1210.)*

The chart below shows what actually happened during the conversion process for the two tranches disbursed under the Family Planning and Health Program.

**LOCAL CURRENCY GENERATIONS NOT CREDITED
TO THE FPIIP LOCAL CURRENCY ACCOUNT**

TRANCHE	U.S. \$ DISB.	PREV RATE	CEDIS DEPOSITED	CEDIS GEN. BY AUCTION	CEDIS NOT CREDITED	AMT NOT CREDITED (700:1)
	\$3 million	411:1	1,236,000,000	1,261,000,000	25,000,000	\$ 35,000
	\$5 million	594:1	3,005,000,000	3,062,000,000	57,000,000	\$ 81,000
					Total	\$116,000

N B. 700:1 was the prevailing exchange rate at the time of the audit

As shown above, adjustments totalling \$116,000 should have been made to the program's special local currency account. These adjustments were not made because the Mission was not following established Agency procedures and its own Mission Order in tracking the deposits to, and withdrawals from, the various program local currency accounts. Specifically, the Mission's Office of the Controller was neither maintaining the required memoranda accounting records on local currency deposits and withdrawals, nor performing the monthly reconciliations between USAID records and the bank statements received from the Government of Ghana's Controller and Accountant General. Since the cognizant USAID/Ghana Controller and Project Officer had been reassigned, we were not able to identify the exact reason why USAID/Ghana did not follow established procedures in monitoring the special local currency account during the two tranches of

the FPHP. However, the fact that the Mission was without a Controller for an extended period contributed to this monitoring weakness.

We consider this amount of lost revenue to be important because the Mission's procedural failure raises the possibility of greater losses during the conversion of the planned \$18 million transfers for the Primary Education and Family Planning and Health Programs and any other future cash transfer programs, which require local currency tracking, if the failure goes uncorrected. Further, the Mission needs to ensure that financial monitoring procedures, already in place, are followed consistently. Finally, the Mission needs to recover the lost revenue for the Family Planning and Health Program.

Management Comments and Our Evaluation

The Mission generally concurred with Recommendation No. 3 and is rewriting a Mission order and establishing systems for its implementation. It also confirmed that local currency generations originally transferred under the Family Planning and Health Program by the Bank of Ghana were less than actual generations by the dollar equivalent of \$116,000, and the Bank of Ghana has transferred this shortage in local currency to the Ministry of Finance and Economic Planning. The Mission submitted evidence of the Bank of Ghana's transfer of the local currency equivalent of the \$116,000 shortage, therefore, we consider Recommendation Nos. 3.2 and 3.3 closed on report issuance. Upon submission of evidence that the Mission Order has been issued and that systems are in place, we can close Recommendation No. 3.1.

SCOPE AND METHODOLOGY

The Office of the Regional Inspector General for Audit, Dakar, audited USAID/Ghana's cash transfer program in accordance with generally accepted government auditing standards. Programs covered in the audit and periods of review were the Trade and Investment Program (September 30, 1992 to October 22, 1993), the Primary Education Program (July 18, 1990 to October 22, 1993), and the Family Planning and Health Program (April 25, 1991 to October 22, 1993).

We conducted our field work in Accra, Ghana, from August 9, 1993 to October 22, 1993 at the offices of USAID/Ghana, the GOG Ministry of Finance and Economic Planning, the GOG Ministry of Health, the GOG Ministry of Education, the Bank of Ghana, and the local offices of KPMG, Certified Public Accountants.

The Mission Director, USAID/Ghana, made various representations concerning the management of the Cash Transfer Program in Ghana in a management representation letter signed on November 9, 1993.

We reviewed documentary and testimonial evidence and interviewed cognizant officials from the above organizations as well as the American Embassy in Accra. Evidence reviewed included the relevant cash transfer program agreements, project papers, and Project Implementation Letters (PILs). We also reviewed relative bank statements for the programs under review, as well as prior Non-Federal and Federal audit reports. Our audit also included an analysis of pertinent regulations, policies and procedures, and a review of the Mission Operating Procedures and the latest USAID/Ghana Internal Control Assessment. We also assessed internal controls relating to 1) release, deposit, use, and audit of cash transfer dollars, 2) monitoring and evaluating the cash transfer programs, and 3) monitoring of the local currency deposits, programming, and use.

To determine whether the required policy reforms had actually occurred, we visited entities, or end users, who would be in a position to verify that reforms had indeed occurred, such as exporters of non-traditional exports (shrimp and pineapples), a primary school, the main and a district warehouse where educational materials were maintained, health service providers, and pharmacies.

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FOR RIG/A/DAKAR ANKLEWICH FROM DIR. GOODWIN

E.O. 12356: N/A
SUBJECT: RIG/A/DAKAR DRAFT AUDIT REPORT ON
USAID/GHANA'S CASH TRANSFER PROGRAM

REF: (A) DAKAR 13257, (B) ACCRA 11407

USAID/GHANA RESPONSE TO SUBJECT DRAFT AUDIT
RECOMMENDATIONS FOLLOWS:

RECOMMENDATION NO. 1

USAID/GHANA'S PROGRAM GRANT AGREEMENTS NUMBERS 641-T-603
AND 641-T-602A PERTAINING TO THE FAMILY PLANNING AND
HEALTH PROGRAM AND THE PRIMARY EDUCATION PROGRAM, BOTH
SPECIFY THAT QUOTE THE GRANT WILL, TO THE EXTENT
POSSIBLE, BE HELD BY THE GRANTEE IN AN INTEREST-BEARING
ACCOUNT, PENDING ACTUAL UTILIZATION UNQUOTE.

RECOMMENDATION 1.1

MISSION CONCURS WITH RECOMMENDATION 1.1 AND IS SENDING A
LETTER TO THE RELEVANT GOVERNMENT OF GHANA IMPLEMENTING
AGENCIES OF THE FAMILY PLANNING AND HEALTH PROGRAM,
REQUIRING THAT SUBSEQUENT DOLLAR CASH TRANSFERS BE
DEPOSITED IN INTEREST-BEARING ACCOUNTS.

RECOMMENDATION 1.2

MISSION IS WORKING WITH THE BANK OF GHANA TO DETERMINE
THE AMOUNT OF INTEREST LOST AS A RESULT OF THE FAILURE
OF THE GOVERNMENT OF GHANA TO DEPOSIT THE FIRST TRANCHE

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OF THE PRIMARY EDUCATION PROGRAM AND THE FIRST AND SECOND TRANCHES OF THE FAMILY PLANNING AND HEALTH PROGRAM INTO INTEREST-BEARING ACCOUNTS IN THE US. ONCE THE MISSION HAS DETERMINED THE NUMBER OF DAYS FOR WHICH INTEREST WAS LOST, A DOLLAR AMOUNT WILL BE COMPUTED BY USING THE APPLICABLE US TREASURY CURRENT VALUE OF FUNDS RATE FOR THE RELEVANT PERIOD.

RECOMMENDATION 1.3

AS SOON AS MISSION IS ABLE TO MAKE A REASONABLE DETERMINATION OF FUNDS LOST, A LETTER WILL BE SENT TO THE GOVERNMENT OF GHANA REQUIRING THEM TO DEPOSIT AN EQUIVALENT AMOUNT OF LOCAL CURRENCY INTO THE APPROPRIATE LOCAL CURRENCY PROGRAM ACCOUNTS.

RECOMMENDATION NO. 2

RECOMMENDATION 2.1

MISSION DIRECTOR IS SENDING A LETTER TO THE GOVERNMENT OF GHANA REQUIRING THAT THE BANK OF GHANA PROMPTLY CREDIT THE PRIMARY EDUCATION PROGRAM LOCAL CURRENCY ACCOUNT WITH TOTAL INTEREST EARNED ON TRANCHES TWO AND THREE OF THE DOLLAR CASH TRANSFER DISBURSEMENTS DEPOSITED WITH THE CHEMICAL BANK IN THE US. A SECOND LETTER TO BE SENT TO THE GOVERNMENT OF GHANA WILL REQUIRE THE OPENING OF AN INTEREST-BEARING ACCOUNT FOR SUBSEQUENT FAMILY PLANNING AND HEALTH PROGRAM CASH TRANSFER DISBURSEMENTS. BOTH LETTERS WILL ALSO REQUIRE THE GOVERNMENT OF GHANA TO INSTRUCT ITS UNITED STATES BANKERS TO SEND COPIES OF BANK STATEMENTS COVERING ALL SUBSEQUENT DOLLAR CASH TRANSFER DISBURSEMENTS DIRECTLY TO THE USAID/GHANA CONTROLLER.

WITH THE BANK STATEMENTS FROM THE US BANKS AND THE BANK OF GHANA STATEMENTS ON LOCAL CURRENCY YIELD FROM THE SALE OF DOLLARS, MISSION WILL BE ABLE TO TRACK THOSE DOLLARS TO THE LOCAL CURRENCY ACCOUNTS AND ENSURE THAT FUNDS FOR BOTH PRINCIPAL AND INTEREST ARE DEPOSITED INTO THE RELEVANT LOCAL CURRENCY PROGRAM ACCOUNTS.

FURTHERMORE, THE MISSION HAS NOW ASSIGNED THE RESPONSIBILITY FOR THE TRACKING AND MONITORING OF ALL DOLLAR CASH TRANSFER DISBURSEMENTS TO THE FINANCIAL ANALYST.

THESE MEASURES SHOULD ENSURE THAT INTEREST EARNED ON DOLLAR CASH TRANSFER DISBURSEMENTS ARE PROPERLY AND PROMPTLY CREDITED TO PROGRAM LOCAL CURRENCY ACCOUNTS.

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RECOMMENDATION 2.2

MISSION HAS DETERMINED THAT TOTAL INTEREST EARNED ON THE SECOND AND THIRD TRANCHES OF THE PRIMARY EDUCATION PROGRAM AMOUNTS TO DOLLARS 28,072.26. MISSION IS TAKING STEPS AS OUTLINED IN OUR RESPONSE TO RECOMMENDATION 2.1 ABOVE, TO GET THE LOCAL CURRENCY EQUIVALENT OF THIS AMOUNT CREDITED TO THE PROGRAM LOCAL CURRENCY ACCOUNT.

RECOMMENDATION 2.3

MISSION IS SENDING A LETTER TO THE GOVERNMENT OF GHANA, REQUIRING THAT IT DEPOSIT THE CEDI EQUIVALENT OF DOLLARS 28,072.26 INTO THE PREP LOCAL CURRENCY ACCOUNT.

RECOMMENDATION NO. 3

RECOMMENDATION 3.1

IN GENERAL, THE MISSION CONCURS WITH THIS RECOMMENDATION. HOWEVER, THERE ARE CERTAIN CIRCUMSTANCES THAT NEED TO BE TAKEN INTO CONSIDERATION. WHEREAS THE FIRST AND SECOND TRANCHE DISBURSEMENTS OF THE FAMILY PLANNING AND HEALTH PROGRAM WERE MADE ON MAY 29 1992 AND ON FEBRUARY 25 1993, MISSION ORDER 1210, FIRST DRAFTED ON 04/07/92 BY THE CONTROLLER WAS REVISED FIVE TIMES AND WAS NOT ISSUED AND EFFECTIVE UNTIL JUNE 4 1993. THE CONTROLLER THEN DEPARTED ON HOME LEAVE RETURN TO POST ORDERS BUT WAS UNEXPECTEDLY TRANSFERRED BACK TO WASHINGTON. WHEN OTHER MISSION STAFF REVIEWED THE REVISED MISSION ORDER, CERTAIN PORTIONS WERE FOUND TO BE IN CONFLICT WITH SOME BANK OF GHANA REGULATIONS AND WITH PORTIONS OF THE GRANT AGREEMENTS.

THESE CIRCUMSTANCES AND THE FACT THAT THE MISSION WAS WITHOUT A CONTROLLER FOR AN EXTENDED PERIOD HAS DELAYED THE REVISION AND IMPLEMENTATION OF MISSION ORDER 1210.

MISSION IS CURRENTLY REWRITING THE MISSION ORDER AND IS ESTABLISHING SYSTEMS FOR ITS IMPLEMENTATION. ONCE THIS REVISED MISSION ORDER IS COMPLETED AND THESE SYSTEMS ARE IN PLACE, COPIES OF THE MISSION ORDER AND PROCEDURES WILL BE SENT TO RIG/A/DAKAR.

RECOMMENDATIONS 3.2

TO ANSWER THIS RECOMMENDATION, MISSION CONFIRMS THAT LOCAL CURRENCY GENERATIONS ORIGINALLY TRANSFERRED TO THE

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MINISTRY OF FINANCE AND ECONOMIC PLANNING UNDER THE FAMILY PLANNING AND HEALTH PROGRAM BY THE BANK OF GHANA FELL SHORT OF ACTUAL GENERATIONS BY CEDIS 81,622,174.11, WHICH AT CEDIS 700 TO ONE DOLLAR AMOUNTS TO DOLLARS 116,000.

RECOMMENDATION 3.3

THE BANK OF GHANA TRANSFERRED THE SHORTFALL OF CEDIS 81,622,174.11 TO THE MINISTRY OF FINANCE AND ECONOMIC PLANNING UPON THEIR REQUEST ON OCTOBER 25, 1993. A HARD COPY OF THE CREDIT ADVICE COVERING THIS TRANSACTION ISSUED BY THE BANK OF GHANA IS BEING SENT TO YOU BY COURIER TODAY. BROWN

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