Programs and Systems Audits

AUDIT OF USAID'S POLICIES AND PROCEDURES OVER USAID/JORDAN'S PRIVATE SECTOR COMMODITY IMPORT PROGRAM

Report No. 9-000-94-012
July 29, 1994

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

July 29, 1994

MEMORANDUM FOR D/PPC, Larry Saiers
D/AA/M, Michael Sherwin

FROM: IG/A/PSA, L. Toby Jarman *Toby L. Jarman*

SUBJECT: Audit of USAID Policies and Procedures Over USAID/Jordan's Private Sector Commodity Import Program

Enclosed are five copies of our report on USAID Policies and Procedures Over USAID/Jordan's Private Sector Commodity Import Program, Audit Report No. 9-000-94-012. We considered your comments on the draft report and have included them as appendicies to this report (See Appendicies II - IV). Based on your comments, all of the recommendations are considered resolved and may be closed upon our review of documentation evidencing the implementation of these recommendations.

Please respond to this report within 30 days, indicating any actions planned or taken to close the recommendations. I appreciate the cooperation and courtesy extended to my staff during the audit.

Introduction

In September 1985, the Hashemite Kingdom of Jordan and the United States of America signed a grant establishing a $160 million Commodity Import Program which financed the foreign exchange costs of necessary commodities and related services in the public and private sectors[1]. Subsequently, in 1988, USAID/Jordan authorized Private Sector Commodity Import Program (CIP) financing of $3.6 million ($4 million less a 10 percent cash deposit) for Amman Resources Ltd. (Amman Resources), a Jordanian company, to purchase the equipment, installation, and training necessary to build a rice-processing and bagging plant at the port of Aqaba. These plant components were bought from Comet Rice, a U.S. rice retailer, with whom Amman Resources had an agreement giving it exclusive marketing rights for Comet's products in Jordan and Iraq.

[1] This grant was ultimately increased to a total of $187.3 million. A flowchart presenting a general overview of USAID/Jordan's Private Sector CIP mechanism is included as Appendix V.

Our audit found that the construction of this rice plant brought benefits to both the U.S. and Jordan, including:

- Improving the infrastructure at the port of Aqaba.
- Creating 250 permanent and 100 daily Jordanian jobs.
- Increasing U.S. supplier commodity sales to Jordan, including transport on U.S. registered ships, by $4 million.

Our audit also found that CIP policies and procedures could be strengthened to fully prevent USAID from exporting U.S. jobs and paying inflated commodity prices.

Audit Objectives

Based on a request by the Administrator, USAID, to determine if there are serious deficiencies in CIP procedures, we designed our audit to answer the following objectives:

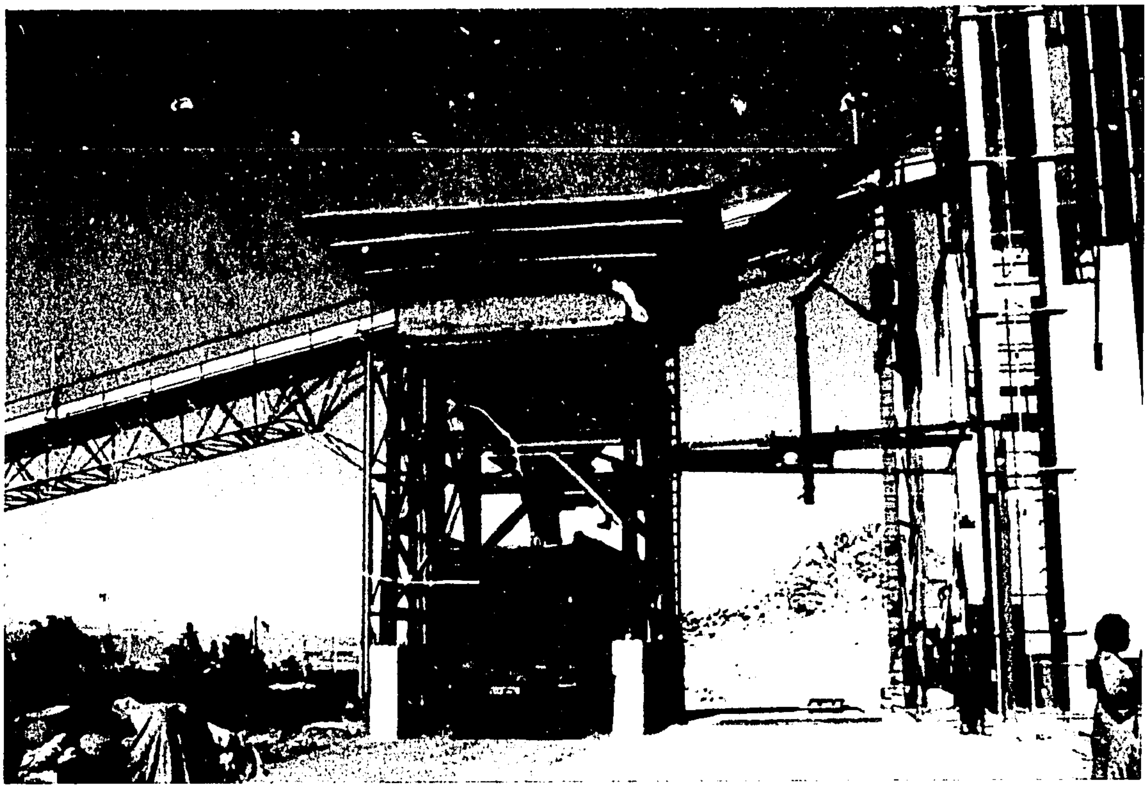
#1 Are USAID's policies and procedures adequate to prevent the export of U.S. jobs under USAID/Jordan's Private Sector Commodity Import Program?

#2 Are USAID's policies and procedures adequate to prevent inflated prices under USAID/Jordan's Private Sector Commodity Import Program?

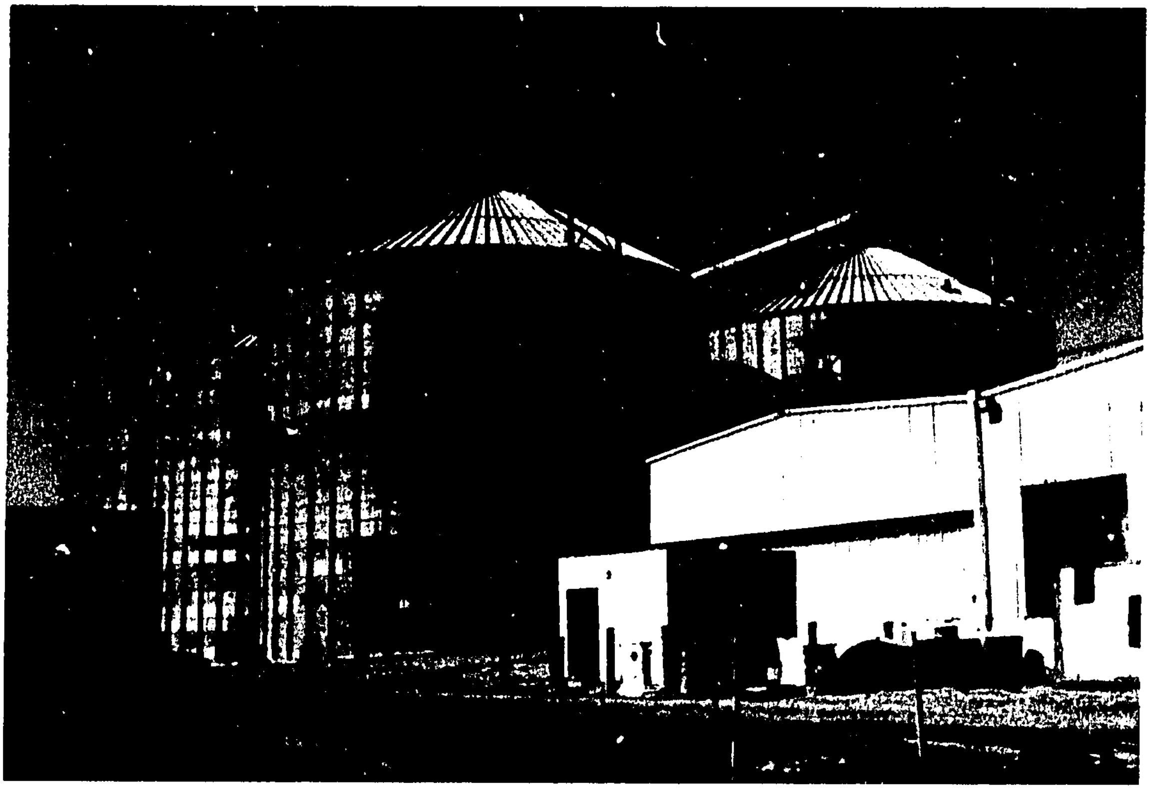
Audit Findings Relating to Objective #1

Our audit determined that USAID policies and procedures could be strengthened to prevent the export of U.S. jobs under the Commodity Import Program. Both U.S. law and Agency policy[2] prohibits the use of USAID funds to provide U.S. companies with financial incentives which contribute to a loss of U.S. jobs. However, USAID policy and guidance does not clearly state that the prohibition against relocating U.S. jobs applies not only to project funds but also to nonproject funds such as those programmed under CIP. As a result, CIP financing of project-like activities such as the Amman Resources Plant could possibly include incentives for U.S. firms to relocate American jobs overseas.

[2] Sections 599 and 547 of the fiscal years 1993 and 1994 Foreign Assistance Appropriations, respectively, prohibit the use of funds appropriated in those years to provide financial incentives for U.S. businesses to export U.S. jobs. In January 1994, USAID issued Policy Determination No. 20 (PD 20) which expanded the application of this legislation to all Agency project funds, regardless of the year appropriated.



Scenes From The USAID-financed Rice Processing Plant
Aqaba, Jordan - January 1994



Our review of the Amman Resources transaction determined that it is possible for the CIP to finance project-like transactions, which could include financial incentives for exporting U.S. jobs—especially when the U.S. supplier and host country importer have formed either a joint venture or share ownership interest in one another. Two such incentives are:

- Lower Third World operating costs could give a U.S. company a competitive edge. Before construction of its plant in Aqaba, Comet Rice's annualized GSM[3] $39 million sales to Iraq were processed and bagged in the U.S. Once the plant was built, its annual $100 million sales were processed and bagged in Jordan and generated 250 permanent and 100 daily jobs for Jordanians in Aqaba. This increase in sales is attributable to lower shipping and operations cost achieved by moving the rice processing and bagging function overseas. However, since there was no violation of law—the 599/547 legislation was not in place at the time—we did not attempt to determine the number of U.S. jobs lost.

- Currency devaluations, typically experienced by Third World countries, could allow a foreign subsidiary/partner of a U.S. company to obtain CIP-financed equipment and repay in devalued local currency. For example, Amman Resources/Comet Rice repaid only the Dinar equivalent of $1.9 million for $3.6 million of commodities.

Although Amman Resources was the only project-like transaction involving a joint venture we identified at USAID/Jordan, weak CIP controls in this area make it possible for other similar transactions to result in the loss of U.S. jobs. This is, of course, contrary to the general perception that CIP is a "Buy American" program which promotes American jobs.

Even though legislation had not been passed at the time of the Amman Resources transaction, project-like CIP transactions may, because of the financial incentives, leave the Agency vulnerable in today's environment. It is logical to assume that a future CIP transaction which moved millions of dollars' worth of business operations from the U.S. to an overseas location and created a significant number of overseas jobs could result in the loss of U.S. jobs—a violation of current law and/or policy[4].

Since current USAID guidance (1) does not require CIP participants to disclose ownership in one another or planned joint ventures and since it (2) does not associate the

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[3] The United States Department of Agriculture's General Sales Manager (GSM) program guarantees financing for foreign purchases of U.S. agricultural commodities.

[4] Public Laws 102-391 and 103-87 only apply to funds appropriated in fiscal years 1993 and 1994, respectively. PD 20 extends the application of these laws to all project and projectized funds, regardless of when appropriated.

loss of U.S. jobs with the CIP, a "loophole" exists in USAID's internal control system which may allow USAID officials to unwittingly authorize transactions which result in the loss of U.S. jobs. USAID could help assure itself of complying with both U.S. law and Agency policy by requiring U.S. suppliers to certify that their CIP participation would not result in the loss of U.S. jobs due to exportation of production capacity.

Our audit found that although USAID forms currently require the supplier to make a number of certifications, they do not contain a certification regarding U.S. job loss. Additionally, USAID Handbook 15, which contains the Agency's policy and guidance regarding USAID-financed commodities, provides no mention of the export of U.S. jobs. Finally, PD 20 is worded so that it appears not to apply to nonproject assistance, such as the Commodity Import and Cash Transfer Programs.

> **Recommendation No. 1: We recommend the Deputy Director, Bureau for Policy and Program Coordination, clarify Policy Determination No. 20 by expanding its applicability to all USAID activities—including nonproject assistance, such as the Commodity Import and Cash Transfer Programs.**
>
> **Recommendation No. 2: We recommend the Deputy Assistant Administrator for Management modify Handbook 15 so it:**
>
> **2.1 Refers to Policy Determination No. 20; and**
>
> **2.2 Requires suppliers to incorporate the certification addressing the export of U.S. jobs from Appendix C of Policy Determination No. 20 into price quotations and invoices for commodities.**

Audit Finding Relating to Objective #2

We were unable to determine if USAID policies and procedures were adequate to prevent inflated commodity prices because available files contained insufficient documentation and other applicable files were destroyed before Agency deadlines.

Price Analysis Not Fully Documented

GAO's Standards for Internal Controls in the Federal Government require that documentation of significant internal controls be useful to managers in controlling their operations and to auditors in analyzing operations. We believe that USAID/Washington's Commodity Monitoring Branch (CMB) price analysis is a significant control, especially when reviewing noncompetitive procurements.

While in Jordan, we reviewed a judgmental sample of 105 CIP transactions and determined that 77 (73 percent) were noncompetitively awarded based on a distribution agreement between the supplier and importer. USAID regulations permit noncompetitive procurement based on such agreements; however, under these conditions where free market competitive forces are not acting to keep commodity prices reasonable, the Agency must conduct a thorough analysis to ensure that commodity prices are reasonable. Although the price analysis function is a significant internal control, only 4 of the 11 CMB files we requested and received contained any documentation supporting the USAID price analyses[5] Even for those files with documentation, we could not always determine to what extent the total price had been verified. Moreover, we noted that one analyst judged commodity prices as reasonable after verifying only nine percent of the amount financed. The remaining files contained no support other than subjective statements such as "the commodity prices were reasonable based on the analyst's knowledge of the industry."

After reviewing the CMB's Audit Analysis Guidebook (published in 1984), we concluded it does not require sufficient documentation of price analyses. Furthermore, the Guidebook does not define how much of the commodity cost must be verified. When asked about these omissions, the CMB Chief acknowledged that the Guidebook was outdated and needed to be revised.

Our review determined that, as a result of this inadequate guidance, only 7 of 14 completed price analyses (11 requested files and 3 volunteered files) were supported by any documentation and of those, only 4 were adequately documented. Therefore, out of 52 total files (requested and volunteered) we could only make a determination on 4, resulting in our disclaimer. Since the CMB's price analysis function is USAID's key control in ensuring price reasonableness in cases of noncompetitive procurement, it is essential that such analyses be thoroughly documented so their effectiveness can be assessed by management and auditors.

Recommendation No. 3: We recommend the Deputy Assistant Administrator for Management amend the Audit Analysis Guidebook to require:

3.1 Commodity price analyses be supported by adequate documentation, and

3.2 Price analyses address the majority of commodity costs.

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[5] We originally requested 49 files for review. However, due to its file-retention procedures, described later in this report, the CMB was only able to provide 30 of these files (61 percent). Of the 30 files provided, only 11 contained price analyses. The CMB Branch Chief subsequently volunteered 3 additional files, all of which contained price analyses and supporting documentation.

File-retention Procedures Not Followed

USAID guidance defines how long the Agency must keep various types of files. We determined that CMB files containing price reviews were being destroyed before Agency deadlines, apparently because managers were not familiar with applicable guidance. As a result, such files were not available when needed, necessitating that USAID staff repeat the original price analyses.

As previously mentioned, the price analysis function serves as an essential commodity procurement control—especially in cases of noncompetitive procurement. Appendix 4A of USAID Handbook 21 (Records Management) classifies files containing such commodity procurement controls as Procurement and Contracting Records. Appendix 6A of the same handbook defines the retention period for such records to be:

1) 6 years and 3 months for transactions greater than $25,000 and construction contracts greater than $2,000, and

2) 3 years for transactions less than or equal to $25,000 and construction contracts less than or equal to $2,000.

However, when we attempted to examine the price analyses performed for several of the 105 transactions sampled in Jordan, we learned that as recently as one year ago, the Commodity Monitoring Branch's (CMB) practice had been to destroy all files containing price analyses after only three years. As a result, the CMB could provide only 30 of 49 files (61 percent) we requested. Additionally, since only recent files were available, of the 30 received, only 11 contained completed price reviews.

When asked about the CMB's file-retention policy, the branch chief stated that the destruction of files was stopped about one year ago. Since that time, files have neither been retired in accordance with Handbook 21 nor destroyed; they have simply remained in the CMB. While the branch chief was not familiar with the requirements of Handbook 21 and unable to say why previous CMB management did not follow that handbook's guidance, we conclude that CMB personnel were unaware of its requirements.

Regardless of the reason, the outcome was that the information contained in the files is not available for subsequent review. Since criminal and civil statute of limitations are five and six years, respectively, the destruction of files after three years could pose significant problems if questions arise regarding illegalities associated with CIP transactions.

Because of the destruction of the Amman Resources file, we were unable to confirm the reasonableness of Comet Rice's commodity prices by reviewing the CMB's analysis. As a result, USAID IG staff had to spend several weeks and incur significant costs to repeat USAID's original analysis. Retaining CMB analyses for six years, as is done with payment vouchers submitted by suppliers, would provide compliance with Handbook 21 requirements and ensure that such documentation is available in the future.

Recommendation No. 4: We recommend the Deputy Assistant Administrator for Management amend the Audit Analysis Guidebook to require that Commodity Monitoring Branch analyses and worksheets be attached to the supplier payment voucher and returned to M/FM for retention and handling in accordance with USAID Handbook 21.

Management Comments and Our Evaluation

The Deputy Director, Bureau for Policy and Program Coordination (PPC), the Deputy Assistant Administrator for Management (M Bureau), and the Director, USAID/Jordan, provided comments on our draft report. A summary of their significant comments, and our evaluation of those comments, are presented below. The complete text of Management comments are included as Appendicies II - IV of this report.

Recommendation No. 1 - The M Bureau and PPC generally agreed with our recommendation. Additionally, we adopted the M Bureau's suggestion of including cash transfer programs as another example of nonproject assistance which, like the CIP, is not currently covered by PD 20.

Recommendations No. 2.1 & 2.2 - The M Bureau agreed that USAID Handbook 15 should be modified to refer to PD 20. However, it believed that suppliers and importers should not be required to disclose intentions as to current or future joint ventures. We originally recommended the disclosure of beneficial relationships, such as joint ventures, by the supplier and importer to provide more information and, thereby, lower the risk that USAID managers would authorize CIP transactions which exported U.S. jobs. An alternative approach, which we have adopted in this final report, is to reduce risk by requiring suppliers to submit a legally binding certification regarding the exportation of U.S. jobs.

Recommendations No. 3.1 & 3.2 - The M Bureau concurred with our recommendations.

Recommendation No. 4 - The M Bureau believed that CMB price analyses were Accounting Administrative Files rather than Procurement and Contracting Records, as we reported, and were therefore eligible for disposal after three years. While we do not agree with its characterization of price analyses, its suggested solution of attaching CMB worksheets to the supplier payment voucher is acceptable, since such vouchers are retained for six years.

Job Loss in the U.S. - USAID/Jordan asserted that job creation in developing countries does not immediately mean loss of jobs in the U.S. and supports this by stating that increased sales by a U.S. firm and U.S. shipping may directly result in an increase in U.S. job opportunities . We agree that job creation in developing countries does not necessarily mean loss of jobs in the U.S. and, in fact, believe that determining whether a net loss of U.S. jobs will result from future activities will be a complicated, multi-variable problem that USAID managers will have to assess. However, our purpose was to determine whether USAID's controls adequately reduced the risk of exporting U.S. jobs—not whether U.S. jobs were lost. Accordingly, we did not attempt to determine the number of U.S. jobs lost, but rather made recommendations to strengthen management controls safeguarding against such a loss.

Repayment of Financing - Regarding our point that CIP provided financial incentives, USAID/Jordan thought it misleading for us to speculate on the result of a situation where part of, or all, shipments/payback schedules took place during the process of devaluation of the currency. However, we believe it is more informative to concentrate on the importer's actual repayment of CIP financing rather than on the bank's initial calculation of a payback schedule. The repayment of this financing is far more crucial since it continued through the period of devaluation and resulted in Amman Resources/Comet Rice paying only the equivalent of $1.9 million for $3.6 million of commodities. Furthermore, conditions are ripe for this scenario to be replayed, since currency devaluation is common in USAID-assisted countries.

Financial Incentives - USAID/Jordan believed that our report disregarded non-USAID financial incentives which could induce a U.S. company to build a facility abroad and that the concessional interest rate applied in the CIP only offset the higher cost of U.S. shipping required by the CIP. However, U.S. law and USAID policy only address the financial incentives resulting from the use of USAID appropriated funds. Therefore, other possible commercial or economic factors are irrelevent to establishing a violation of law or policy. Additionally, neither law nor policy defines "financial incentives" as being limited to the differential between a market and concessional interest rate. Such factors as currency devaluations, as described above, can yield extraordinary profits and should be taken into account.

Weak CIP Controls - USAID/Jordan contended that CIP controls regarding allowing, encouraging, or preventing joint ventures are of no concern, since the "controlling factors" are competition and equal access to CIP financing. However, these "controlling factors" do nothing to lower the risk that U.S. jobs might be exported via a joint venture or other ownership relation between the supplier and importer. Our recommendation requiring suppliers to make a legally binding certification that U.S. jobs will not be exported will lower the risk of job loss.

Price Analysis - USAID/Jordan implies we should clarify the results of our price analysis. This analysis determined that the prices charged by Comet Rice were reasonable, but this did not affect our findings since CIP control weaknesses could still permit future financing of unreasonably priced commodities.

<u>Miscellaneous</u> - USAID/Jordan asserted that we did not clarify the Mission's file retention and monitoring/reporting practices. Our report does not take issue with USAID/Jordan's file retention activities. Nor does it question the Mission's monitoring and reporting exercised over the Amman Resources/Comet Rice CIP transaction, since those efforts were adequate within the context of USAID policy at that time. However, the same monitoring practices would be inadequate today given the requirements of PD 20.

SCOPE AND METHODOLOGY

This audit of USAID's controls over the Private Sector Commodity Import Program implemented by USAID/Jordan covered controls in place during the performance of our field work from January through March 1994. This work was conducted in accordance with generally accepted government auditing standards for performance audits and was performed at USAID/Washington and USAID/Jordan. We reviewed 105 out of 715 total USAID/Jordan CIP transactions and 11 USAID/Washington price analyses related to those transactions. Our review of such price analyses was limited because USAID's Commodity Monitoring Branch was not complying with USAID file-retention requirements.

Our field work also included interviews of USAID/Washington staff, USAID/Jordan staff, and a representative of Amman Resources; reviews of Agency files in Washington and Jordan; and evaluations of CMB commodity price analyses. While in Jordan, we performed a physical inspection of the rice-processing plant in Aqaba. We also analyzed GSM rice sales data provided by the U.S. Department of Agriculture's Inspector General.

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JUN 14 1994

MEMORANDUM

TO: IG/PSA, Toby Jarman

FROM: DAA/M, Michael Sherwin

SUBJECT: Audit of USAID Policies and Procedures Over USAID/Jordan's Private Sector Commodity Import Program

Summary: We agree with the general thrust of the audit in that special care must be taken to ensure that no U.S. jobs are lost as a consequence of our USAID programs. We also agree that Commodity Import Program (CIP) procedures can and should be strengthened particularly in the area of post-transaction review. We acknowledge that the auditors did not demonstrate that any U.S. jobs were lost due to the Jordan CIP, or that current CIP procedures are not sufficient to handle special importer-supplier relationships such as joint ventures. Nevertheless, we wish to thank the Auditors for their prompt and efficient work and for helping us to find ways in which to strengthen our procedures.

Response: A. We concur with Recommendation No. 1 that would have PPC clarify Policy Determination (PD) 20 by expanding its applicability to all activities including non-project assistance (NPA). We would strongly urge however, that CIP not be specifically singled out as an example in the Recommendation unless cash and sector cash activities are singled out as well. It would be unfortunate to leave the Agency with the tacit understanding that cash and sector cash programs that lack most of the controls that CIPs provide under AID Regulation I and which generally fail to address Buy America issues would escape inclusion under PD 20 even though cash programs account for eight to ten times the funds that CIPs do.

B. AID Regulation I, Section 201.23(e), Procurement under supplier-importer relationships, states that: "1. Solicitation of offers from more than one supplier is not required if...the importer is precluded from buying from another supplier..." Under the same reference, we have "2. AID may require the importer to furnish, or cause to furnish to AID documentary evidence of the existence of the relationship..." These provisions of AID Regulation I are clearly applicable in

USAID forms that require the supplier and importer to disclose beneficial interest in one another." However, since AID Regulation I already provides for the submission of documentary evidence in support of the existence of special supplier-importer relationships, any additional forms would be redundant. Furthermore, the recommendation that suppliers and importers must disclose whether they "have" or "plan to" establish ownership interest in one another, or a joint venture is not a realistic one. First, it is unsupported by evidence that the creation of joint ventures leads to the loss of U.S. jobs and, second, it is unenforceable in any practical way. Thus, while we support the first part of Recommendation 2.1 that HB 15 be modified to refer to PD 20, the basis of the second part of the Recommendation 2.1 has not been substantiated and Recommendation 2.2 does not realistically appear to be enforceable. Rather, we would propose that the CMO and the Washington Commodities Office aggressively pursue all documentation provided for in Regulation I and apply the concerns of PD 20 to such situations as may appear to involve either potential or actual joint ventures.

C. We concur with Recommendations No. 3.1 and 3.2 that commodity price analyses be supported by adequate documentation and cover the majority of the commodity costs in a transaction. The Audit Analysis Guidebook will be amended accordingly.

D. During the course of the audit, it was explained that the payment documents that make up the bulk of the Monitoring Branch's review files are the jurisdiction of M/FM, and, therefore, are FM's responsibility to retire. That is to say, the payment documents CC/M obtains from M/FM to review, including the original copy of the Form AID-11 approved by OP/CC/M, are submitted under the cover of an SF 1034, Public Voucher for Purchase and Services Other Than Personal, and are covered therefore, under HB 21 Pt.II; page 6A-59, which pertains to Accountable Officer Account Files under Section XV FISCAL MANAGEMENT RECORDS. In fact, further perusal of this Section provides: "Correspondence, reports and data relating to voucher preparation, administrative audit, and other accounting and disbursing operations" under Accounting Administrative Files under 15060, which states: "Cut off files annually. Destroy when 3 yrs old."

Clearly the auditors intend that the results of CC/M's post transaction reviews and analyses be available for review at a future date and for Recommendation No. 4 to provide us the means to ensure this. However, upon further consideration, it seems to us that establishing an official Monitoring Branch file with separate retention and retirement authority wouldn't fully address the auditors' or CC/M's concerns regarding future availability and security of all relative information nor would it obviate the need for duplication. Since all payment documents must be returned to M/FM, any substantive, later review would require the retrieval of the M/FM file in addition to the CC/M file, unless all payment documents were copied and retained by CC/M. We don't consider either solution to be the most effective or practical and, instead, propose that the analysts' work be kept as a permanent entry in the official M/FM file. Thus, the files would be kept in accordance with the current provisions of HB 21, would contain the analyses that both the auditors and we agree should be kept, and would be retrieved as needed according to existing Handbook guidance.

Conclusion:

RECOMMENDATION No. 1: We concur that PPC should expand PD 20 to include non-project activity. We would strongly urge however, that CIP not be singled out as an example of non-project activity unless cash programs are as well.

RECOMMENDATION No. 2: We concur with Recommendation No. 2.1 that HB 15 should be modified to refer to PD 20. We feel however, that, on the grounds of lack of enforceability and substantiation, the suppliers and importers should not be required to disclose intentions as to future establishment of joint ventures. (Current joint ventures are covered under the provisions of AID Regulation I, Section 201.23.) Similarly, this would apply to Recommendation No. 2.2.

RECOMMENDATION No. 3: We concur with Recommendations 3.1. and 3.2. The Audit Analysis Guidebook will be amended to require that all post-transaction reviews adequately document any price analyses conducted as part of the review or utilized from any previous review. The Guidebook will also be amended to require that price reviews and analyses address the majority of a transaction's commodity costs.

RECOMMENDATION No. 4: After reconsidering the auditors' underlying analysis, we feel that the best solution would be for CC/M's worksheets, e.g. post-transaction review checklist, notes, and any price analysis conducted, to be attached to the payment voucher and returned to M/FM for retention and handling in accordance with HB 21. The Audit Analysis Guidebook will be amended to list the specific documents.

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JUN 29 1994

MEMORANDUM

TO: IG/A/PSA, Toby L. Jarman

FROM: AA/PPC, Terrence J. Brown

SUBJECT: Audit of USAID's Policies and Procedures Over USAID/Jordan's Private Sector Commodity Import Program

PPC reviewed the draft report on the results of the Audit of USAID Policies and Procedures Over USAID/Jordan's Private Sector Commodity Import Program. We agree that USAID policy and guidance can more clearly state that the prohibition against relocating U.S. jobs applies not only to project funds, but also to project-like activities such as those financed under Commodity Import Programs when the U.S. supplier and the foreign importer state that they currently have, or plan to establish, ownership interest in one another or a joint venture.

Therefore, following modifications to Handbook 15 and USAID Form 11 to require disclosure of such supplier/importer relationships, PPC proposes to amend Policy Determination 20 of January 3, 1994 as follows:

Change PD-20, Section III, Paragraph A, sentence three to read:

> "As a matter of policy, USAID is extending the application of Section 599 and 547 to all projects* financed with appropriated dollars -- prior year funds as well as funds from FY 1993 and 1994 forward -- and to all projectized local currency funds, including those generated through P.L. 480 programs.

*The term projects includes all project-like activities such as those financed under Commodity Import Programs when the U.S. supplier and the foreign importer disclose that they currently have, or plan to establish, ownership interest in one another or a joint venture".

320 Twenty-First Street, N.W., Washington, D.C. 20523

MEMORANDUM JUN 07 1994

TO: IG/A/PSA, Toby L. Jarman

William T. Oliver

FROM: William T. Oliver, Director, USAID/Jordan

SUBJECT: Audit of USAID Policies and Procedures Over USAID/Jordan's Private Sector Commodity Import Program

USAID/Jordan reviewed the draft report on the results of the audit of USAID Policies and Procedures for the Private Sector Commodity Import Program. Our comments address general CIP issues, specific concerns regarding the transaction and comments on the report's recommendations.

The following points relate to the entire context of the report. We will cite examples to clarify our concerns but it should be noted that the same point applies to the overall context of the report.

1. The reference to the parties involved in the transaction should be further clarified specifically the reference to USAID/Jordan and USAID/Washington and USAID as an agency. It is difficult to trace duties and responsibilities of the parties involved in the manner presented in the report.

2. Job creation in developing countries does not immediately mean loss of jobs in the U.S., Section 599 legislation clearly attempts to make that distinction by emphasizing the need to prevent relocation of jobs from the U.S. to developing countries. The last paragraphs of page 5 and 6 should not assume that job creation in Jordan automatically leads to jobs lost in the U.S. We feel that the draft report fails to substantiate the notion of jobs lost as a result of locating the plant in Jordan. The increase in volume of sales by a U.S. firm plus U.S. shipping requirements leads us to think that a direct result of the increase would be an increase in the job opportunities in the U.S.

3. The report seems to disregard all possible economic and commercial factors other than the CIP financing in determining the amount of sales of the U.S. company and its ability to receive major GSM contracts. The GSM contracting process is one of these factors that should be examined. The argument can be made that without such contracts, a facility in Aqaba might prove to be unfeasible from the commercial sense.

4. CIP Controls are not weak as described in the second paragraph of page 6 regarding allowing, encouraging or preventing joint ventures. It is simply an area of no concern since the controlling factor is competition and equal access to the financing by competitors. The monitoring through price analysis, eligibility of suppliers and eligibility of commodities in terms of U.S. source and origin are the factors that prevent abuse of the program.

5. The term "financial incentives" is used sparingly throughout the report as in the second paragraph of page 2 and paragraph 3 of page 6. Those terms of financing should be specified and the following fact clarified:

   The interest rate applied is within 1.0 to 2.0 points of the prime rate to help make up for the higher cost U.S. flag shipping rates. The last audit conducted on the Jordan program determined that the financing terms are within those applied in the financial market in Jordan.

6. The size of the program and the relations that it helped foster between U.S. suppliers and Jordanian importers that resulted in around $190 million of sales under the CIP alone should lead us to think that the program supports buying "American" and creates and maintains jobs in those exporting firms. The conclusion in the second paragraph of page 6 is based again on a possible state of events and not on findings.

7. On page 12, last paragraph the report falls short of clarifying the result of the extensive effort awarded to the determination of the reasonableness of prices, a result that effects the findings of the report.

8. The report fails to clarify specific facts concerning the visit to Jordan. All requested files were made available to the team although the required retention period had been over. The monitoring and reporting controls enforced by USAID/Jordan over CIP transactions were also ignored in the report.

9. The report refers to the amount of 10 percent paid by the importer to the local Jordanian bank as a cash deposit. This amount is in fact a down payment paid on the transaction. Other cash deposit or collateral requirements are agreed upon between the bank and the importer without USAID/Jordan's involvement since the bank is the liable party to the Central Bank of Jordan (Special Account) for the entire amount of the transaction.

10. Amman Resources, Ltd., is a privately owned company registered with the Government of Jordan as a limited liability firm. It should be referenced to as Amman Resources Ltd. or the Amman Resources Company.

11. The exact amount paid back by the importer to the Jordanian bank and subsequently into the Special Account is illustrated in Table 1 (attached) that includes the $/JD exchange rate applied.

    As Table 1 demonstrates, the amount paid by the importer is not equivalent to $1.9 million except if the current exchange rate of the $/JD of 0.69 is used. This is near the current rate of 0.7. The fact is that all the shipments under this Letter of Credit were effected and subsequently payback schedules were prepared prior to the devaluation of the Jordanian currency and in accordance to Table 2. Therefore, the importer applied for CIP financing, received the commodities and concluded all financial obligations including the payback agreement (amortization schedule) prior to the devaluation of the currency. It is misleading to speculate on the result of a situation where part of, or all shipments/payback schedules took place during the process of the devaluation of the currency especially since the program was suspended during that same period.

As to the report recommendations, they seem to be largely based on speculative scenarios. The report findings do not lead us to the same conclusions that have been presented as recommendations in the report. Rather, a speculative set of hypothetical circumstances lead into the recommendations presented.

We offer these recommendations:

1. CIP guidance and regulations should incorporate relevant applicable PD20 guidance to remain a vehicle of providing balance of payment support through U.S. exports while preventing any possible loss of U.S. jobs.

2. Once the parties to the transaction reveal their joint venture intentions, guidance should be specified by the Deputy Assistant Administrator for Management as to USAID's position regarding the venture.

3. Form 11 is required and presented after the transaction is approved in the field and the Letter of Credit is issued.

Finally, it should be noted that the set of circumstances that led to this investigation and/or audit include several other factors besides the CIP financing that deserve attention.

Since one of the objectives of the effort was to review overall policies and procedures, the program should be viewed in contrast with other financing vehicles available to private sector entities competing in today's economy such as those that enable European, Japanese and others to export their products and services.

We hope these Mission comments clarify our position with regard to the draft report. If further clarification is needed, we are at your service.

CC: D/PPC, Larry Saiers
D/AA/M, Michael Sherwin

Clearances:

PDelp:TIP draft
SYaghi:CIP draft
JPower:RLA draft/comments
DReese:A/DD
BO'Leary:CONT RCO
MYassein:CONT

SY:sy;5/23/94;U:\TIPPUB\DOCS\AUDIT

Payback Schedule (Amortization)

TABLE 1

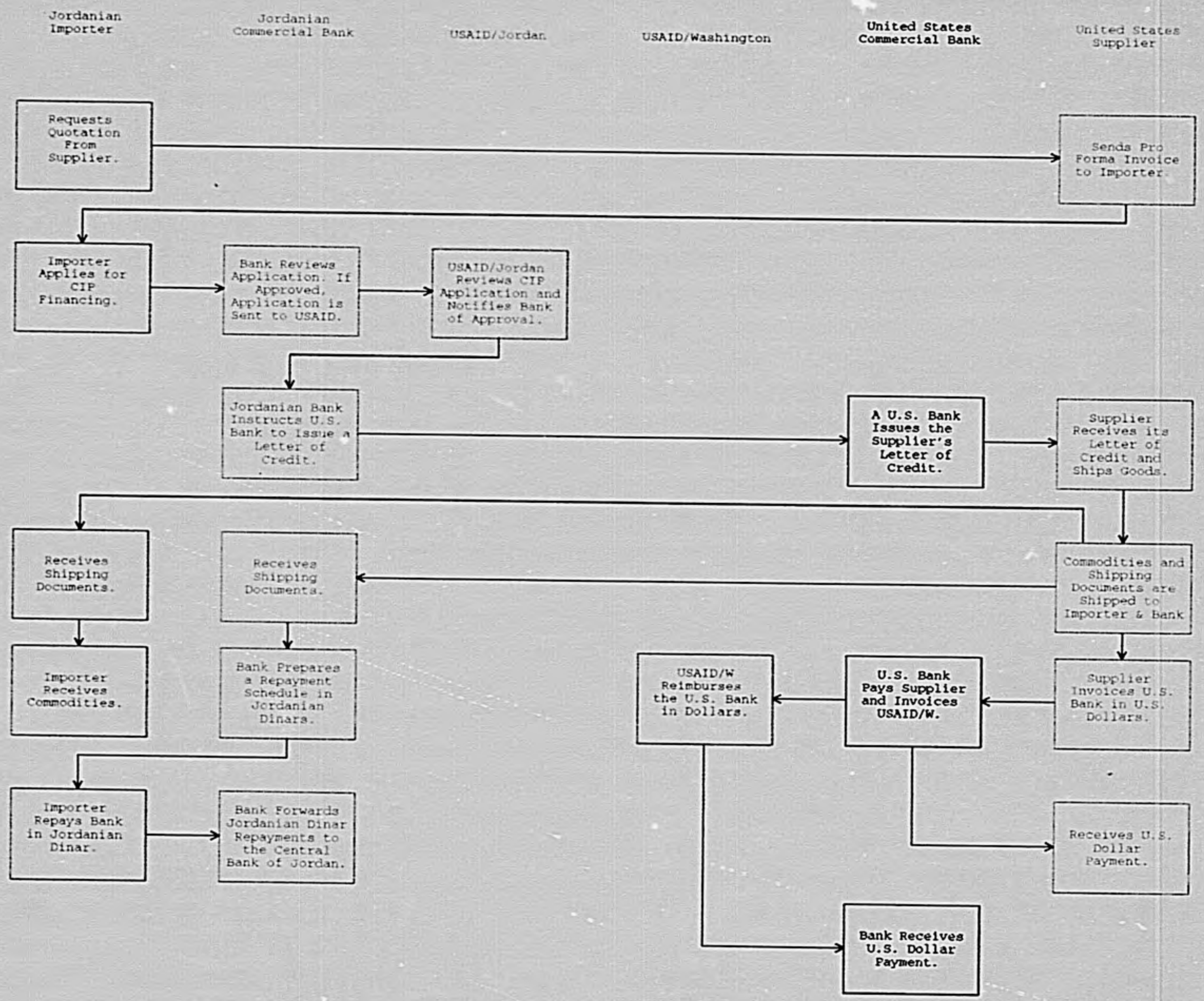
SHIPMENT NO.	SHIPMENT DATE	SHIPMENT JD AMOUNT	SHIPMENT $ AMOUNT	EXCHANGE RATE	INTEREST EARNED
1	06-03-88	567,691.25	193,866.562	0.3415	14,994.349
2	07-16-88	577,235.00	197,125.752	0.3415	15,246.441
3	08-19-88	471,437.60	160,995.940	0.3415	12,452.027
4	09-12-88	1,117,553.90	381,644.657	0.3415	29,517.827
5	08-19-88	225,236.70	76,918.333	0.3415	5,949.150
6	10-16-88	272,550.00	93,075.825	0.3415	7,198.832
7	01-21-89	301,295.70	102,892.480	0.3415	7,958.093
8	01-30-89	498,704.14	170,307.464	0.3415	13,172.221
		4,031,704.290	1,376,827.013	0.3415	106,488.940

JD/$ Exchange Rate

TABLE 2

DATE	EXCHANGE RATE
01-04-88	.326
02-25-88	.337
04-21-88	.333
05-24-88	.340
06-21-88	.358
07-10-88	.364
08-25-88	.376
09-22-88	.377
10-25-88	.445
11-30-88	.535
12-22-88	.518
01-16-89	.539
02-10-89	.565
03-21-89	.542
05-18-89	.538
06-89	.574
07-30-89	.573
08-02-89	.860
08-28-89	.755
09-12-89	.680

General Flowchart of USAID/Jordan's CIP



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