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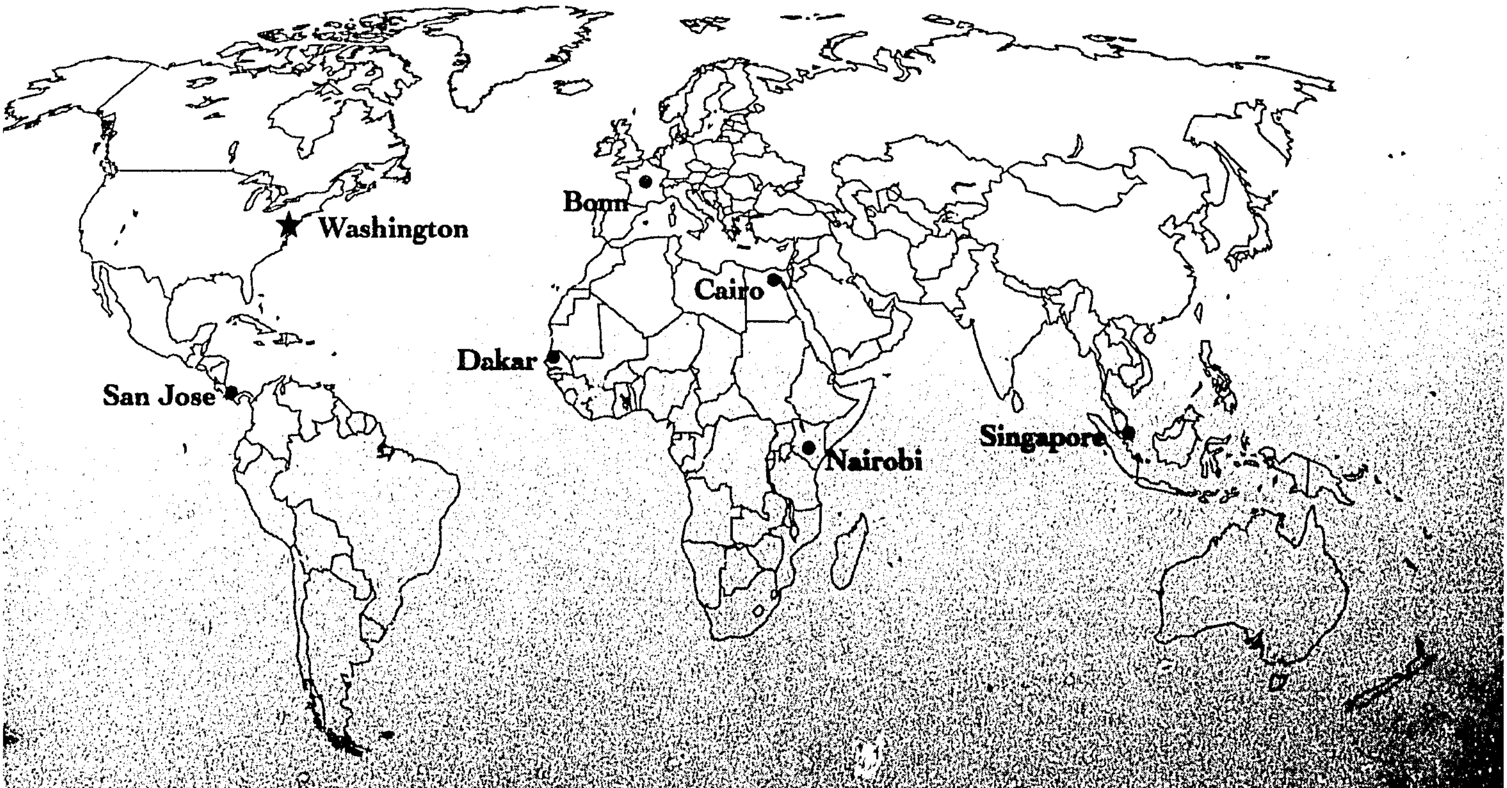
Regional Inspector General for Audit
Nairobi, Kenya

Audit of Selected USAID Missions' Management of Host Country-Owned Local Currency

Report No. 3-000-95-010
March 30, 1995



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Audit of
Selected USAID Missions' Management of
Host Country-Owned Local Currency

Audit Report No. 3-000-95-010
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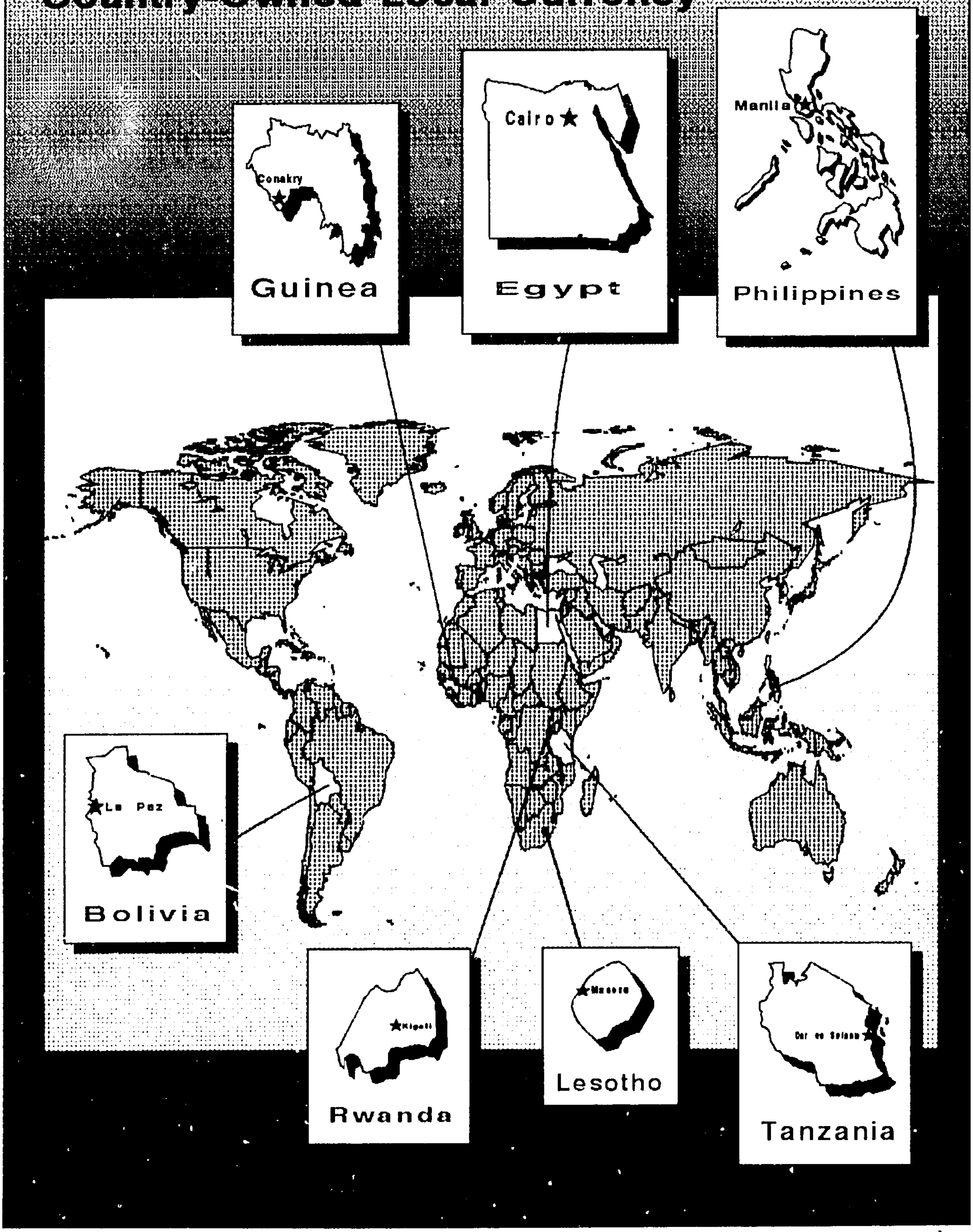
"USAID has made considerable progress in managing local currency, but improvements can still be made."

Worldwide Audit of Selected USAID Missions' Management of Host Country-Owned Local Currency



USAID
U.S. Agency for
International
Development

*Assistant
Inspector General
for Audit*

March 30, 1995

MEMORANDUM FOR AA/M, Larry Byrne

FROM: AIG/A, James B. Durnil

SUBJECT: Audit of Selected USAID Missions' Management of Host Country-Owned Local Currency

Enclosed are five copies of the subject audit report. Our audit work and written representations confirmed that except for USAID/Egypt, selected USAID missions' management generally responded positively to the new Agency guidance issued in 1991 on Managing Host Country-Owned Local Currency.

We reviewed your staff's comments on the draft report and included them as an appendix to this report. All recommendations are resolved and will be closed when appropriate actions are completed. Please respond to this report within 30 days indicating any actions planned to implement the recommendations.

I appreciate the cooperation and courtesies extended to all Regional Inspector General Audit staffs during the worldwide audit.

Background

Host country-owned local currency has been long recognized as an area of vulnerability in the USAID economic assistance program. Inadequate accounting, monitoring, and reporting systems have prevented USAID from verifying that required local currency deposits were actually made and determining whether withdrawals and disbursements were made for agreed purposes. Consequently, misuse of local currency has occurred. The USAID Inspector General and the U.S. General Accounting Office have both reported on problems with USAID's oversight and accountability of local currency, including managing special local currency accounts and ensuring local currency is used for agreed-upon purposes. Because of those concerns, USAID issued detailed guidance to address these weaknesses.

In July 1991, USAID revised its policy on host country-owned local currency with Policy Determination No. 18 (PD-18). PD-18 describes controls to be used in generating, managing, and programming of host county-owned local currency. More importantly, it prescribes accountability standards as explained in USAID's "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency" (the supplemental guidance) of June 1991.

The accountability standards for host country-owned local currency contained in the revised policy are particularly important for achieving USAID development goals. These standards (1) define mission responsibility in programming and managing local currency, (2) contain specific requirements for managing local currency special accounts, including assessing host government capabilities to manage special accounts, and (3) provide guidelines for assuring that local currencies disbursed from the special accounts were used for agreed-upon purposes. In addition, the accountability standards include requirements for host government reporting, mission oversight, audits, and evaluations.

To underscore the importance of the new accountability standards, the President's Commission on the Management of USAID Programs recommended in 1992 that USAID carefully monitor how missions and overseas offices implement and evaluate whether the new procedures are successful. This worldwide audit is part of that evaluation.

Audit Objectives

The Office of the Inspector General audited seven missions[1] during fiscal years 1993 and 1994 as part of its worldwide audit of host-country owned local currency. These missions were selected for audit because they were among the first missions to begin implementing the new policy, and the grant agreements for their Programs were signed after July 1, 1991, the date PD-18 and the supplemental guidance became effective. Our field work was conducted from September 21, 1992, through October 18, 1993, to answer the following questions:

[1] USAID/Bolivia (Audit Report No. 1-511-94-003), USAID/Egypt (Audit Report No. 6-263-94-006), USAID/Guinea (Audit Report No. 7-675-94-02), USAID/Lesotho (Audit Report No. 3-632-93-11), USAID/Philippines (Audit Report No. 5-492-94-005), USAID/Rwanda (Audit Report No. 3-696-93-08), and USAID/Tanzania (Audit Report No. 3-621-94-005).

Did selected USAID missions follow USAID policy and supplemental guidance for:

1. Assessing the accountability environment in the host country?

2. Designing the grant agreements and amendments?

3. Ensuring that local currency generations were deposited and quickly disbursed?

4. Ensuring that local currencies were programmed and used for the intended purposes?

5. Ensuring that the impact of the local currency programs will be evaluated?

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

Summary of Audit

While we consider the management controls contained in the new Agency guidance to be satisfactory, implementation of these controls varied among missions. Most missions generally followed the 1991 USAID policy on local currency, with the notable exception of USAID/Egypt. However, several of the same problems that prompted the PD-18 and supplemental guidance still existed at a majority of the missions. The most notable problems were in the areas of depositing local currency into interest-bearing accounts and making sure the money was used for intended purposes. We are making recommendations to AA/M to address these problem areas.

In general, although we found a majority of the missions followed policy, improvements are still needed in these areas:

- assessing the accountability environments of host governments;
- designing grant agreements;
- disbursing money as quickly as prudent;
- programming local currency for authorized uses; and
- evaluating the impact of the local currency.

All seven missions audited made sure local currency was put into a special account as required by USAID, the only policy element which all missions followed. USAID/Tanzania, while not monitoring interest earned on its special local currency account closely enough, was the only mission which complied with all five audit objectives. (See table on page 4.)

Summary of Worldwide Audit of Selected USAID Missions' Management of Host Country-Owned Local Currency

	Egypt	Rwanda	Bolivia	Philippines	Lesotho	Tanzania	Guinea
AUDIT OBJECTIVE 1: Assessed Host Government Accountability Environment		✓	✓	✓	✓	✓	✓
AUDIT OBJECTIVE 2: Designed Grant Agreements Following USAID Policy			✓		✓	✓	✓
AUDIT OBJECTIVE 3: Deposited Local Currency in Special Accounts	✓	✓	✓	✓	✓	✓	✓
Put Local Currency in Interest-Bearing Accounts			✓		✓	✓	
Local Currency Disbursed as Quickly as Prudent	✓		✓	✓		✓	N/A
AUDIT OBJECTIVE 4: Local Currency Programmed for Authorized Uses		✓		✓	✓	✓	✓
Local Currency Used For Intended Purposes			✓			✓	
AUDIT OBJECTIVE 5: Local Currency Program Impact Evaluated		✓		✓	✓	✓	

SOURCE: USAID/Bolivia (Audit Report No. 1-511-94-003), USAID/Egypt (Audit Report No. 6-263-94-006), USAID/Guinea (Audit Report No. 7-675-94-02), USAID/Lesotho (Audit Report No. 3-632-93-11), USAID/Philippines (Audit Report No. 5-492-94-005), USAID/Rwanda (Audit Report No. 3-696-93-08), and USAID/Tanzania (Audit Report No. 3-621-94-005).

LEGEND: ✓- Complied.
N/A - Not Applicable

With the exception of USAID/Egypt, the missions generally agreed with our recommendations in their individual audit reports and made the changes requested. None of the missions reported any major problems in complying with our recommendations either internally or with their host governments.

The new Mission Director of USAID/Egypt, who arrived at post after the report was issued, has subsequently agreed to the findings contained in that report, and has proposed actions to close the recommendations.

Audit Findings

The following summary provides a consolidation of audit results from the seven USAID missions, and does not provide the level of detail included in the individual reports. Please refer to the missions' audit reports for details on specific audit findings and recommendations.

Assessment of the Accountability
Environment In the Host Country

Six of seven missions did assessments of the accountability environment in the host country as required by USAID policy and supplemental guidance.

In USAID/Egypt's assessment, which was completed after the grant agreement had been signed, the Mission concluded the Government of Egypt had systems in place, which, if followed, would properly account for local currency programmed for USAID project support. However, the Mission did not review the host country's capability to account for or measure the impact of local currency programmed for general budget support, general sector support or USAID administrative costs. These areas accounted for about $273 million or 89 percent of the $307 million programmed for fiscal year 1993.

Design of the Grant
Agreement and Amendments

Four of seven missions designed their grant agreements and amendments following USAID policy and supplemental guidance. These missions included provisions for a separate special local currency account, deposit of local currency in an interest-bearing account, reporting by the host government agency responsible for managing the special account, and audits of the special account. However, USAID/Philippines and USAID/Rwanda did not include provisions for requiring local currency be put into interest-bearing accounts.

USAID/Egypt and USAID/Rwanda did not include provisions in their grant agreements and amendments to require periodic audits. The effect of these conditions is discussed in more detail in the following sections.

Deposit and Disbursement
of Local Currency

All seven missions audited made sure their local currency was deposited into special accounts. However, only three of seven missions made sure the money was deposited into separate interest-bearing accounts. Four of seven missions ensured local currencies were disbursed quickly as required by USAID policy and supplemental guidance.

USAID/Egypt, USAID/Rwanda, USAID/Guinea, and USAID/Philippines did not make sure local currency was deposited into interest-bearing accounts, and three of the four did not make a written determination as to why they chose not to do so. USAID/Philippines found out during the audit field work that unknown to them the Government of Philippines had put the money into an interest-bearing account, where it earned $197,000. In the case of USAID/Egypt, the Mission put a provision in the grant agreements that local currency would be put into non-interest bearing accounts at the Central Bank. This was based on a determination by the Mission's Chief Economist that neither the Government of Egypt nor the national economy would benefit from payment of interest on deposits in the Central Bank, which can not by law pay interest on deposits. The Economist concluded his June 1991 determination by saying:

> ***"Thus the notion that, through interest payments on the special account, the amount of development activity made possible by a given level of U.S. assistance is expanded, (ceteris paribus), is not correct in the Egyptian institutional context."***

USAID/Rwanda and USAID/Guinea both moved their local currencies to interest-bearing accounts in response to audit recommendations. Prior to these actions, the equivalent of about $467,000 in interest earnings was not available for development activities in these two countries.

On the issue of disbursing local currency, both USAID/Rwanda and USAID/Lesotho were slow to disburse local currency from the special accounts. The Government of Rwanda had used its own money for the programmed use, and left USAID's local currency in the special account, while the slow disbursement of USAID/Lesotho's was related to construction delays in another donor's component of the project. USAID/Guinea had not disbursed funds at the time of our audit.

Local Currency
Programming and Use

Five of seven missions made sure local currencies were programmed for authorized uses, but only two of seven missions checked to make sure local currencies were used for the intended purposes as required by USAID policy and supplemental guidance.

USAID/Bolivia did not ensure all local currencies were programmed as required by policy and guidance, and USAID/Guinea had not disbursed funds at the time of our audit.

At the time of our audit, USAID/Rwanda, USAID/Lesotho, and USAID/Philippines had not scheduled audits to verify that their local currency had been used as intended. In addition, neither USAID/Lesotho or USAID/Philippines had received reports from their respective governments on how the local currency in the special accounts had been used. USAID/Egypt did not include provisions in its grant agreements requiring audits or reports from the government on how the local currency was used. Thus, USAID/Egypt was unable to ensure that the equivalent of $252 million in local currency was used for its intended purposes.

Impact Evaluation of the
Local Currency Program

Four of seven missions took steps to ensure the impact of local currency programs would be evaluated following USAID policy and supplemental guidance.

USAID/Guinea had developed a comprehensive evaluation system which, if implemented, should ensure the impact of its Title III program will be evaluated. But since the Mission had not disbursed its local currency, there was nothing to evaluate. USAID/Egypt did not comply with USAID policy on evaluating the impact of its program. Since the Mission was unable to determine how its local currency was used by the Government of Egypt, the Mission was likewise unable to ascertain the impact of that currency on program objectives. USAID/Bolivia did not include specific performance indicators in its 1992 P.L. 480 Title III agreement that would have facilitated an evaluation.

Conclusion

Although we consider management controls to be generally satisfactory, our audit noted two areas of primary concern with USAID's management of host country-owned local currency.

First, four of the seven missions did not make sure local currency was deposited into interest-bearing accounts, and three of the four did not make a written determination as to why they choose not to do so. With such a large portion of a small sample not complying with USAID policy on interest-bearing accounts, USAID needs to firmly restate its position on this issue, not stated merely as a preference, but perhaps, as a requirement with a specific course of action for any mission that does not comply.

Second, four of the seven missions had not scheduled audits of the local currency turned over to their respective governments, or had not received reports on how those governments used the money. If these missions do not know how local currencies generated from U.S. development assistance was spent, how can missions measure the impact or evaluate the success of a specific program in a developing country?

We believe some missions' problems with oversight and accountability of local currency may have been caused from confusion due to policy and guidance being scattered in several documents, including the USAID Handbook, PD-18, and various cable guidance issued by USAID/Washington.

We consider these two areas to be material weaknesses and reportable conditions under the Federal Managers' Financial Integrity Act. Therefore, we are making the following two recommendations to USAID management to address these weaknesses in oversight and accountability.

Recommendations

The report contains two recommendations which will help reemphasize missions' understanding of their responsibility towards the persistent problem areas we have identified.

<u>Recommendation No. 1:</u> **We recommend that AA/M:**

1.1 re-emphasize in precise terms to all missions the Agency's policy for depositing local currency generations into special interest-bearing accounts, and;

1.2 direct all missions to include a statement in future Federal Managers' Financial Integrity Act reports to the Administrator on whether local currency generations have been deposited into interest-bearing accounts, or whether the mission director has made a written determination not to follow USAID's policy for interest-bearing accounts with copies of each determination kept on file at the mission.

Recommendation No. 2: **We recommend that AA/M:**

2.1 re-emphasize to all missions the Agency's policy and guidance for scheduling audits and receiving required reports showing the uses of local currency disbursed from special accounts; and

2.2 direct all missions to include statements on reporting and auditing the special account in future Federal Managers' Financial Integrity Act reports to the Administrator.

Management Comments and Our Evaluation

On March 20, 1995, Agency management officials provided written comments, stating that they had reviewed the subject draft audit. The officials further stated that they had no substantive comments on the draft and believe the recommendations will help reemphasize Agency policies and practices related to local currency. The complete text of the Agency's comments is presented as Appendix II.

Based upon management's response to the draft report, the Office of Inspector General considers Recommendation Nos. 1 and 2 to be resolved upon issuance of this report. After Agency completes the actions outlined in the recommendations, they can be closed.

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APPENDICES

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SCOPE AND METHODOLOGY

Scope

We audited seven missions' Management of Host Country-Owned Local Currency in accordance with generally accepted government auditing standards. We conducted the audit from September 21, 1992, to October 18, 1993, in the offices of selected USAID missions[2] and concentrated on P.L. 480 Title III, commodity import, and cash transfer Programs. These Programs were signed after July 1, 1991, the effective date of Policy Determination No. 18 (PD-18) and State cable No. 204855 entitled "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency" (the supplemental guidance) of June 1991.

In performing our audit, we obtained documentary and testimonial evidence from the selected USAID offices, Government ministries, and technical assistance contractors. The audit covered the systems and procedures relating to (1) assessing the accountability environment in the host country, (2) designing of the grant agreement and amendments, (3) depositing and quickly disbursing local currency generations, (4) programming and using local currencies for intended purposes, and (5) evaluating of the impact of the local currency program.

The audit covered local currency equivalent of about $309 million that was deposited into the special accounts and the equivalent of about $275 million withdrawn at the time each audit was conducted by the Regional Inspector General Audit staffs as depicted in the following table.

[2] USAID missions audited were USAID/Bolivia, USAID/Egypt, USAID/Guinea, USAID/Lesotho, USAID/Philippines, USAID/Rwanda, and USAID/Tanzania.

COUNTRY	AMOUNT DEPOSITED ($ millions)	AMOUNT WITHDRAWN ($ millions)
Bolivia	$ 4.36	$ 1.60
Egypt	244	250
Guinea	6.7	0
Lesotho	5.5	1.3
Philippines	20	20
Rwanda	15	1.05
Tanzania	13.6	1.1
Totals	$ 309.16	$ 275.05

As part of this audit, we reviewed the selected USAIDs internal control assessments. We also reviewed prior USAID Inspector General audit reports relating to host country-owned local currency.

We did not test the reliability of computer-generated data used in the report because: (1) the reliability of the data was not crucial to accomplishing the audit objectives, and (2) computer-generated data has been used only to a limited extent, e.g. for background and informational purposes.

Methodology

The methodology to accomplish these audit objectives included:

- reviewing the selected missions' assessment of the host government's accountability environment, the Program Assistance Approval Documents (PAADs) and amendments;

- confirming that provisions on generating, programming, and managing host country-owned local currency required by PD-18 and the supplemental guidance were included in the grant agreements;
- confirming that a special account was established as required by PD-18 and the supplemental guidance, that local currency generated was deposited into an interest-bearing account, and that withdrawals were made from the special account;
- confirming that the programming method used by the selected missions was one of the four programming options given by PD-18, and discussing with mission officials methods used to ensure the local currencies were used for intended purposes;
- reviewing supporting documentation to determine what goods and services were bought, and confirming that the selected missions used audits to ensure the local currencies were used for authorized purposes;
- reviewing the grant agreements and the PAADs, identifying verifiable performance indicators, and discussing with mission officials how these indicators would be measured; and
- confirming that the selected missions had made provision for the evaluation of the Programs.

USAID
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

MAR 20 1995

MEMORANDUM

TO: AIG/A, James B. Durnil

FROM: AA/PPC, Colin I. Bradford, Jr. CIB

SUBJECT: Draft Report on Audit of Selected USAID Missions' Management of Host Country-Owned Local Currency

Ref: Your Memorandum of 11/23/94 to AA/M, Same Subject

PPC and M/FM have reviewed the subject draft audit. We have no substantive comments on the draft, and believe the recommendations will help reemphasize our local currency policies and practices. We will also take the necessary actions to implement both audit recommendations and request that the recommendations be resolved on final audit report issuance.

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