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THE PL 480 TITLE I AND TITLE III PROGRAMS IN SUDAN ARE IN NEED OF MANAGEMENT ATTENTION

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EXECUTIVE SUMMARY

Introduction

The United States (U.S.) has played an important international role as the major supplier of food aid on a worldwide basis. The principal vehicle for U.S. food assistance is the Agricultural Trade Development and Assistance Act of 1954, as amended, commonly known as PL 480 and often referred to as the Food for Peace Program.

The overall objectives of PL 480 are to: expand international trade, develop export markets for U.S. agricultural commodities; combat hunger and malnutrition; encourage economic development in the developing countries; and promote in other ways U.S. foreign policy.

Title I of Public Law 480 provides for the concessional sale of agricultural commodities to friendly countries. Agreements under Title I may be signed either for dollar credit with a 20 year repayment period, or convertible local currency credit with up to 40 years to repay. Interest rates are set by law at minimum of two percent during the grace period and three percent thereafter.

In 1977 Congress enacted the International Development and Food Assistance Act to increase the development impact of PL 480 food aid. The 1977 act amends the Agricultural Trade Development and Assistance Act of 1954 by adding a new food for development program (FFDP) to Title III of the Act (Sections 301 through 310).

Title III permits local currency proceeds utilized for development purposes to be credited against the dollar repayment obligation incurred by certain Title I sales agreements. Thus, Title I sales agreements that include Title III FFDP are referred to as Title I/III sales agreements.

The PL 480 Title I and III programs in Sudan from 1980 through 1983 totalled about $130 million, consisting of $50 million for Title I and $80 million for Title III. Commodities imported were wheat and wheat flour.

Purpose

The purpose of our review was to determine whether: (1) the Government of Sudan (GOS) was using program resources effectively and efficiently; (2) the program was meeting its objectives and goals as stated in program agreements; (3) USAID/Sudan personnel were effective in program monitorship; and (4) applicable agreements, laws and regulations were being complied with.

Findings, Conclusions and Recommendations

Although the program has been relatively successful in providing needed agricultural commodities to assist a distressed GOS economy, there are several areas that require more management attention. The report contains eight recommendations requiring USAID/Sudan and AID/W action. A compendium of the significant findings follow:

Language contained in the Title III agreements does not agree with Title III legislation. Our review of these agreements shows that Commodity Credit Corporation (CCC) costs are to be deposited into a special account. The law states that funds generated from the sale of commodities are to be deposited into a special account. Sales proceeds are not the same as CCC value. For example, the deposit of proceeds from the sale would require an additional deposit of local currency equivalent of about $71 million (see pages 3 to 5).

The GOS is not submitting the required reports in a timely manner. We have recommended that future Title I/III agreements not be negotiated until all Title I/III provisions are complied with. We have also recommended that Bureau for Food for Peace and Voluntary Assistance (FVA) establish control procedures (see pages 5 to 8).

USAID/Sudan erroneously processed three GOS financial reports that entitled GOS to currency use offset credits of $9.5 million. Recommendations were made to reverse the $9.5 million in offsetting credits and to not process future offsets until they contain a certification by the appropriate audit authority of the GOS as required by the agreements (see pages 8 to 10).

GOS was erroneously depositing Title I funds into the Title III special account. This resulted in the special account being overstated by approximately $31 million in local currency equivalent. We recommended that USAID/Sudan review the transactions made to the Title III special account and adjust the account accordingly. Furthermore, we recommended that procedures and controls be established to prevent these errors from reccurring (see pages 10 to 11).

We also noted that USAID/Sudan did not have any management controls in place to determine the validity of the GOS prepared financial reports. Corrective action was recommended (see pages 11 to 12).

Implementation of Title III development projects is slower than planned. USAID/Sudan and the recipient country have established semiannual reviews and annual evaluations to monitor progress and take corrective action if necessary (see pages 13 to 15).

Financial Management AID Handbook 19 needs to be revised to reflect amended Title III legislation. Presently, the Handbook requires that disbursements from the special account be made within two years for the cooperating country to receive offsetting credits. However, we found that the Title III regulations do not have this requirement. We have recommended that Handbook 19 be revised (see pages 15 to 16).

At the conclusion of our review, our audit findings were discussed with USAID/Sudan personnel. Also, copies of our draft report were sent to USAID/Sudan and to the Offices of Food for Peace and Financial Management in AID/W for their written comments. Comments received from USAID/Sudan were duly considered, and where pertinent have been included in this report. No comments were received from the Offices of the Food for Peace and Financial Management in AID/W.

BACKGROUND

The United States (U.S.) has played an important international role as the major supplier of food aid on a world-wide basis. The principal vehicle for U.S. food assistance is the Agricultural Trade Development and Assistance Act of 1954, as amended, commonly known as PL 480 and often referred to as the Food for Peace Program.

The overall objectives of PL 480 are to: expand international trade, develop, and export markets for U.S. agricultural commodities; combat hunger and malnutrition; encourage economic development in the developing countries; and promote in other ways U.S. foreign policy.

PL 480 was initially intended as a temporary program to help other nations with their foreign exchange shortages, and allow the disposal of U.S. agricultural surpluses. Over the years, Congress has periodically extended and amended the act, and today several distinct programs are conducted under PL 480. In line with the objectives noted above, this report deals with both Title I and Title III of PL 480.

Title I of Public Law 480 provides for the concessional sale of agricultural commodities to friendly countries. Agreements under Title I may be signed either for dollar credit with up to a 20 year repayment period, or convertible local currency credit (CLCC) with up to 40 years to repay. Specific down payments may be required. Interest rates are set by law at minimums of two percent during the grace period and three percent thereafter. For the majority of Title I sales agreements, the minimum rates have been used.

Congress enacted the International Development and Food Assistance Act of 1977 to increase the development impact of PL 480 food aid. The Act reflects Congress's concern to provide incentives to developing countries to use PL 480 food aid as a development resource and, at the same time, minimize any disincentive on local food production. The 1977 act amends the amended Agricultural Trade Development and Assistance Act of 1954 by adding a new food for development program (FFDP) to Title III of the Act (Sections 301 through 310).

Title III permits local currency proceeds utilized for development purposes to be credited against the dollar repayment obligation incurred by certain Title I sales agreements. Thus, Title I sales agreements that include a Title III FFDP are referred to as Title I/III sales agreements.

The U.S. Department of Agriculture, through the Commodity Credit Corporation (CCC), finances the sale and export of commodities under PL 480 Title I and III. Actual sales are made by private U.S. suppliers to foreign importers, government agencies, or private trade entities. The CCC finances sales by paying suppliers directly through the U.S. banking system. CCC then collects the amount due over the credit period, including interest, from the importing country.

The PL 480 Title I and Title III programs in Sudan from 1980 through 1983 totalled about $130 million, consisting of $50 million for Title I and $80 million for Title III. Commodities imported were wheat and wheat flour.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our review of the PL 480 Title I and Title III activities was to determine whether: (1) the Government of Sudan (GOS) was using program resources effectively and efficiently; (2) the program was meeting its objectives and goals as stated in program agreements; (3) USAID/Sudan personnel were effective in program monitorship; and (4) applicable laws and regulations were being complied with.

Our review covered the period January 1, 1980 through December 31, 1983. Audit work was done during February and March 1984 mainly in Khartoum, Sudan.

In analyzing the PL 480 Title I and Title III activities, we: (1) examined PL 480 Title I and Title III agreements and amendments; (2) examined selected GOS documents such as financial reports, bank statements, and project reports; (3) visited selected GOS ministries to review procedures and controls over the generation and disbursement of Title I and Title III funds; (4) examined selected CCC disbursement reports and USAID/Sudan accountability records; (5) visited Port Sudan to witness the off-loading of Title I commodities and examined storage facilities; and (6) interviewed various USAID/Sudan and GOS officials.

Our review was made in accordance with the Comptroller General's standards for audit of governmental programs, and included such tests of the programs, records and procedures as we considered necessary in the circumstances.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Language Contained In Title III Agreements Needs To Be Revised

The language contained in the Sudan Title III Agreements conflicts with Title III legislation. The Title III agreement stipulates that the GOS should credit to a special account the local currency equivalent (at the current official rate LS 1.2961 to $1) of the CCC cost of the commodities purchased.1/ This conflicts with Title III Sec. 305(a) of the Agricultural Trade Development and Assistance Act, as amended, which states in part:

> "Funds generated from the sale of agricultural commodities by any participating country under this title shall be held in a special account, where practicable, to be disbursed for the purposes described in the approved Food for Development Program of such country."

Based on this section of the act, the GOS should be depositing into a special account the proceeds generated from the sale of Title III commodities, not the CCC cost.

During our review of the Title III Agreement, dated December 22, 1979, and its relating amendments, we found conflicting statements within the agreement itself. For example, Part I - General Provisions, Article II, Sec. F, Sales Proceeds, states in part:

> "The total amount of the proceeds accruing to the importing country from the sale of commodities financed under this agreement... shall be not less than the local currency equivalent of the dollar disbursement by the Government of the exporting country..."

The language for this provision was apparently taken from the legislation because it talks about sales proceeds. Thus, according to this provision, if sales proceeds are greater than the CCC cost, the GOS should deposit the larger amount.

1/The CCC cost is gross cost to the CCC of financing the sale and export of U.S. agricultural commodities under Title I, PL 480. It includes that portion of the cost of the commodities financed by CCC and the transportation differential, if any, of 50 percent of Title I cargo required to be shipped on U.S. flag vessels.

However, in Annex B, Item III.D, the Title III agreement states in part:

> "For the purpose of this agreement, it is required that the local currency generations be equal to the value of the food commodities shipped under this agreement. The GOS will deposit in a special account the local currency equivalent of the U.S. dollar value of the Title III wheat. If the value of commodities sold for local currency is less than the FOB U.S. port-value of commodities shipped, the GOS will make up the difference."

Item VII of the agreement states that when there are conflicts between the agreement and the annexes, such annexes should be controlling.

Annex B requires the GOS to deposit the local currency equivalent of the CCC cost and not the sales proceeds. Thus, one section of the agreement requires sales proceeds to be deposited to the special account whereas another section states only CCC costs. The result is that the Title III agreement does not meet the intent of Sec. 305(a) of the Agricultural Trade Development and Assistance Act which requires that proceeds from the sales of commodities be deposited in a special account.

We found that the GOS is not depositing funds generated from the sale into the special account. Instead, the GOS credits the special account with the local currency equivalent of the CCC cost, and charges the Ministry of Finance (MOF) general account for a like amount. Actual sales proceeds are deposited directly to the Ministry of Finance general account and are not processed through the special account.

The following illustrates how the two methods (sales proceeds vs. CCC cost) would affect deposits made to the special account, assuming that the GOS continues to follow its present pricing policy covering sale of wheat. The GOS sales price of wheat includes CIF (cost including freight), port clearance cost, and average inland transportation costs country-wide. Deposits to the special account would be as follows:

	Proceeds from Sale Price/Ton	CCC Cost/Ton
CIF cost (including ocean frt.)	LS284.49	
CCC cost (excluding ocean frt.)		LS210.39
Port clearance cost	21.43	
Average inland transportation	54.51	
Total	LS360.43	LS210.39

Thus, if the GOS is required to deposit funds generated from the sale of commodities to the special account in lieu of the CCC cost, an additional deposit of about 71 percent would be required. This could amount to an additional local currency equivalent of about $71 million being available for development purposes when the program is fully implemented.

Conclusion and Recommendation

We believe that the Office of Food for Peace (FVA/FFP), in conjunction with USDA/CCC and General Counsel, needs to determine whether the language contained in the Sudan Title III agreements is in accordance with Title III legislation. In our opinion, it is not. We do not believe that funds generated from the sale of agriculture commodities is the same as CCC value. Only under unusual circumstances would the two be the same. Normally funds generated from the sale would be more than the CCC value unless the host government was subsidizing the commodity for the local populace.

RECOMMENDATION NO. 1

FVA/FFP, in conjunction with USDA/CCC and General Counsel, develop language for Title III agreements that is in accordance with the Title III legislation, i.e., that funds generated from the sale of commodities be deposited into a special account, not CCC value.

The Government Of Sudan Is Not Submitting The Required Title I Reports In A Timely Manner

Part I, Article IIF and Article IIIC and D of the Title I Agreement, requires the GOS to submit various reports pertaining to Title I activities. These reports cover such topics as annual sales proceeds and the use thereof, annual self-help progress reports, and quarterly compliance reports. We found that these reports are not being submitted in a timely manner.

As an example, Part I, Article IIF-Sales Proceeds, requires that an annual report be submitted by the GOS covering sales proceeds and the use of these proceeds. We noted that copies of the annual reports for FY 77, FY 78, and FY 79 had been received and were certified by the GOS Auditor General, as required by the Title I Agreements. However, these reports were not received until August 1980. The reports covering FY 80 through FY 82 were not received until May, 1983. These reports, however, have not been certified by the GOS Auditor General. No report has been received for FY 1983. Unless these reports are received, USAID/Sudan does not have an official document on how much local currency was generated or what the funds were used for.

Part I, Article III of the Title I agreement, requires GOS to submit an annual report on progress made in implementing self help activities. The reports are due at USAID/Sudan by November 15 so that they can be processed in time to meet the deadline for the President's annual report to Congress in accordance with Section 408 of PL 480.

The self help report describes progress made by the cooperating country in carrying out the various activities contained in the Title I agreement. USAID/Sudan, in commenting on the GOS self help reports, stated that performance under the FY 81 agreement self-help measures was good and that compliance under the FY 82 agreement was excellent. However, our review showed that the FY 81 self help report was not received until April, 1983. The FY 82 report was submitted in December, 1982. The FY 83 report, due November, 1983, had not been received at the time of the audit in March 1984.

The GOS's compliance reports, which provides information on such matters as marketing requirements, imports, export restrictions and limitations, utilization, and publicity, were received more promptly, yet still later than required. The four quarterly reports covering FY 83 were each late by about two months.

USAID/Sudan files are replete with reminders to the GOS regarding the reporting requirements. USAID/Sudan has also informed GOS that unless the reporting requirements are met in a timely manner, future Title I agreements could be in jeopardy. This threat, however, was not carried out because a new agreement was signed on December 10, 1983.

The GOS fully understands what is required and has agreed to submit the required reports. However, the GOS blames personnel constraints and shortages for not submitting the reports in a timely manner.

Not only is the GOS failing to meet reporting requirements, but the same situation applies to other countries in Africa. For example, Audit Report No. 3-664-82-19, dated June 22, 1982, covering the PL 480 Title I Program in Tunisia addressed the same problem. The report recommended that unless the Government of Tunisia could demonstrate that reports required are submitted in a timely manner and contain all the required information, AID would not be in a position to approve future Title I programs. Also, in another Audit Report No, 3-611-82-25, dated September 17, 1982, the report addressed similar reporting deficiencies by the Government of Zambia. Another example, Audit Report No. 3-679-84-6, dated January 31, 1984, covering the Title I program in the Congo, shows that the government did not meet any of the provisions of the agreement. A future program in the Congo is being held up as a result of the audit. It appears that failure to meet provisions contained in Title I/III agreements has become a regular problem in the implementation of PL 480 programs, yet AID continues to process and approve programs in these countries, unless audits recommend otherwise. There appears to be a serious gap in management control over enforcement of provisions in AID's Title I and III agreements.

Conclusion, USAID/Response, RIG/A/N Comments, and Recommendations

Compliance with provisions of the Title I/III agreements is not required as a basis for approving new agreements. In our opinion, this is poor management and results in AID's agreement provisions being ignored by host governments because they realize that compliance is not really necessary as a basis for future programs. We believe that this is an unacceptable way to manage programs.

In response to our draft report, USAID/Sudan said that despite their concerted effort with the Ministry of Cooperation, Commerce and Supply (MCCS), the responsible GOS PL 480 management ministry, reporting has not been as prompt as could be desired. However, certain reports have been received, as in the case of self-help and quarterly reports. Thus, timeliness of submission, to some extent, has improved. Delays in obtaining Auditor General certifications continue to impede prompt submission.

USAID/Sudan also said that as a possible solution to the certification problem, an independent accounting firm will be designated as acceptable as the GOS appropriate audit authority. Such a firm would be responsible for auditing, verifying and certifying to all deposits and disbursements from the special account.

We agree that employment of an independent public accounting firm may be a possible solution to the reporting problem, and should be pursued. Thus, we have modified the recommendation contained in our draft report to provide that procedures are established to insure compliance with the provisions of Title I/III agreements before future programs are approved. We have also added a recommendation that FVA/FFP establish procedures to insure compliance because we have found that compliance is ignored when approving new agreements. Either AID's agreements mean what they say and AID enforces them, or AID should revise the requirements so they can be complied with more easily.

RECOMMENDATION NO. 2

USAID/Sudan in conjunction with the GOS develop reporting deadlines as a basis for monitoring whether the GOS is in compliance with the agreement. Noncompliance should result in suspending negotiations on future agreements until the reporting requirements are met.

RECOMMENDATION NO. 3

FVA/FFP establish procedures that require Missions to certify that all provisions of existing Title I/III programs have been met as a basis for approving future programs.

USAID/Sudan Erroneously Processed Currency Use Offset Reports Valued At $9.5 Million

USAID/Sudan erroneously processed three GOS financial reports that entitled GOS to currency use offset credits of $9.5 million. These reports covered the quarters ending March 31, June 30, and September 30, 1983. The reports did not contain a certification by the appropriate audit authority of the GOS as required in the Title III agreement.

On December 22, 1979, the U.S. and the GOS entered into a Title I/III agreement in which the U.S. would provide $20 million of wheat and/or wheat flour to the GOS over a one year period. Since that time, the agreement has been amended yearly providing for annual increases of $20 million or a total of $80 million as of December 31, 1983. Repayment terms are provided under a convertible local currency credit (CLCC). The CLCC is a credit sales agreement in which the installments of principal and interest are payable in foreign currencies that are fully convertible to dollars or other currencies needed by the United States. The payment period can extend to a maximum of 40 years.

The agreement provides for a Title III food for development program (FFDP). Under the FFDP, funds generated from the sale of PL 480 Title III commodities are to be deposited into a special account and used for joint USAID/Sudan and GOS agreed-to development purposes. When funds are disbursed from the special account the GOS can apply the local currency dollar equivalent against the loan obligation.

Prior to receiving these offsetting credits, the GOS is required to submit to USAID/Sudan quarterly financial reports detailing receipts and disbursements made from the Title III special account. The Title III agreement requires that these reports be certified by the appropriate audit authority of the GOS. The quarterly reports serve as a basis for USAID/Sudan to report currency use offset credits to the CCC.

We reviewed eight financial reports that the GOS had submitted to USAID/Sudan. The last three reports, covering the quarters ending March 31, June 30, and September 30, 1983, did not contain the signed certification by the appropriate audit authority of the GOS.

We also reviewed currency use offset reports which USAID/Sudan submitted to the CCC, covering the quarters ending September 30 and December 31, 1983. These reports show offsetting credits of about $9.5 million, but these credits were based on uncertified GOS financial reports.

Conclusion, USAID/Response, RIG/A/N Comments, and Recommendations

USAID/Sudan needs to require that financial reports are certified before offsetting credits are reported to CCC. Action should be taken to reverse the uncertified $9.5 million in offsetting credits reported to USDA/CCC.

In response to our draft report on this issue, USAID/Sudan said that the recommendations highlight a recurring problem with the current reporting system, more specifically, delays in obtaining Auditor General certification to required financial reports. Sales agreement language requires that reports of deposits and disbursements made be "certified by the appropriate audit authority of the government of the importing country", not the Auditor General specifically.

USAID/Sudan also said that because designation of the Auditor General as the "appropriate audit authority" appears to impede rather than assist the system of financial reporting, USAID/Sudan is proposing the acceptance of an independent accounting firm as the government's "appropriate audit authority". Such a firm would be responsible for auditing, verifying and certifying to all deposits and disbursements from the special account. This will correct the situation covered by the recommendations. We accept the recommendation as stated but suggest that the recommendation be reworded to "unless they contain a certification by the appropriate audit authority of the GOS".

We have modified our original recommendation to include the suggested language.

RECOMMENDATION NO. 4

USAID/Sudan should not process any GOS financial reports for offsetting credits unless they contain a certification by the appropriate audit authority of the GOS.

RECOMMENDATION NO. 5

USAID/Sudan should reverse the $9.5 million of offsetting credits previously reported to the USDA/CCC.

Government Of Sudan, In Some Cases, Is Depositing Title I Funds Into The Title III Special Account

During our review, we found that funds credited to the Title III special account (No. 02-12-274) in the Bank of Sudan (BOS) were generated from Title I commodities. These funds should have been deposited into the Title I general account.

This practice was unknown to USAID/Sudan until we brought it to their attention. We estimated that the value of these transactions was about LS 40 million (about $31 million). These transactions apply to purchase authorization (PA) numbers 7016, 7019, 7020, and 7021. As a result, the Title III special account bank balance, which at December 31, 1983 showed a balance of LS 52,504,435 (about $40.4 million) was overstated by about LS 40 million (about $31 million).

In our discussion with BOS officials, we learned that the primary reason for these discrepancies is that the BOS is unable to distinguish between Title I and Title III commodities because the documents presented to the bank do not indicate the specific program title. Thus, in some cases, funds generated from these commodities are credited to the wrong account. If these practices continue, neither USAID/Sudan nor GOS will know the correct amount of funds available for Title III development projects.

Conclusion, USAID/Response, RIG/A/N Comments, and Recommendation

Title I funds have been erroneously recorded in the Title III special account. Prior deposits and disbursements will have to be scrutinized to determine the correct balance in the account and adjustments made. Where appropriate, procedures and controls should be established that will prevent funds from being credited to the wrong account.

USAID/Sudan stated that they believe amounts are fungible and as long as "local currency equivalent of each dollar disbursed by CCC" is deposited in each account. Thus, their source is not the controlling factor. USAID/Sudan suggested that the recommendation be deleted from the final report.

We think otherwise. If separate accounts have been set up for Title I and III, then the integrity of the accounts should be maintained. Therefore, we have retained our recommendation.

RECOMMENDATION NO. 6

USAID/Sudan, in conjunction with the GOS, (a) review transactions recorded in the Title III special account and based on the results of the review adjust the account accordingly, and (b) establish procedures and controls that prevent funds from being credited to the wrong account in the future.

USAID/Sudan Needs To Establish Management Controls To Determine The Validity Of Financial Reports Submitted By The GOS

USAID/Sudan needs management controls to determine that the GOS provided financial information contained in quarterly financial reports is accurate.

One requirement contained in the Title III agreement is for the GOS to submit quarterly financial reports detailing receipts and disbursements from the Title III special account. At present, USAID/Sudan takes the information contained in these reports and processes offsetting credits without attempting to verify the validity of the information.

Prior to the audit, USAID/Sudan had not received a Title III special account bank statement, even though the program had been in process for about four years. This is in spite of USAID's efforts to obtain such statements.

We also noted that USAID/Sudan's Controller's Office was not receiving copies of project financial reports and related bank statements. But we found that these reports and bank statements were available in other USAID/Sudan offices. If the controller's office was receiving the bank statements and project financial reports they could have compared this information to GOS reports to determine the report's accuracy. As an example, if management controls had been established, USAID/Sudan would have been able to detect that Title I funds had been deposited to the wrong bank account.

Conclusion, USAID/Response, RIG/A/N Comments, and Recommendation

USAID/Sudan needs to establish procedures to compare information contained in GOS quarterly financial reports to the special account bank statements and to the respective project bank statements. Failure to do so could result in USAID/Sudan processing offsetting credits that are incorrect because USAID/Sudan has not determined if the reports are correct.

USAID/Sudan commented in their response that this situation will be addressed with the acceptance of an independent accounting firm to act as the GOS appropriate audit authority.

We agree with USAID's proposed action to have an independent accounting firm verify the validity of the information contained in the GOS quarterly financial reports. However, until such plans have been implemented, we have retained our original recommendation.

RECOMMENDATION NO. 7

USAID/Sudan establish controls to verify the accuracy of the information contained in GOS quarterly financial reports before offsetting credits are processed.

Implementation Of Title III Project Activities Is Slower Than Planned

As of December 31, 1983, project expenditures were only 67 percent of those planned. This indicates that project implementation is much slower than anticipated. The Title III agreement provides that funds generated from the sale of PL 480 commodities are to be deposited into a special account and disbursements from the account are to be used for mutually agreed-to development projects. Expenditures from the special account for project activities began in November, 1980. As of December 31, 1983, 11 projects and USAID/Sudan's Trust Fund were being funded from the special account (see Exhibit I).

We noted that of the LS 32.6 million ($25 million) planned for release by December 31, 1983, only LS 21.9 million ($17 million) had actually been expended. This represents only 67 percent of that planned.

One of the major causes for delays has been AID's protracted contracting process. As an example, in Sudan's Rural Health Support project there was a two year delay in project implementation before a U.S. technical assistance contractor was secured. Other causes that could not be forecast during the project design phase were the adequacy of the Sudanese trained manpower pool, the ability to retain project staff, and the need to redesign and amend projects to adapt to the changing realities of the Sudanese environment. These causes have now surfaced as the prime reasons for the slowness in project implementation.

But, the GOS has not been concerned with the slowness of project implementation. They consider the Title III project progress to be much better than central government projects[1/]. Yet, the GOS fails to fully realize that under the Title III program, patient and prudent budget management may be penalized by the loss of potential currency use offset due to fluctuating exchange rates.

1/GOS development projects funded from other than Title III resources.

Both the GOS and USAID/Sudan have recently taken steps to improve the implementation of project activities. The USAID/Sudan now has a full time U.S. direct hire who directs the programming of local currency. Also, a U.S. personal service contract (PSC) employee and a Sudanese PSC employee have been added to the staff. Jointly, USAID/Sudan and the GOS have initiated semiannual project reviews whereby project implementation can be more closely monitored.

Yet, even with these improvements, we believe that increased surveillance will be required over a program of such complexity and magnitude (local currency equivalent of $100 million1/). Project activity and financial reporting will have to be closely scrutinized to determine that projects are meeting their targets and objectives. As more local currency is generated, new projects may have to be initiated or revisions made to on-going projects.

Conclusion, USAID/Response, and RIG/A/N Comments

In view of the complexity and magnitude of the program, we believe that USAID/Sudan, in conjunction with GOS, needs to take action that will improve the implementation of Title III development activities. Project targets will have to be closely scrutinized and those projects failing to meet their targets will have to be redesigned or terminated.

We have reviewed a copy of Annex B. The annex highlights projects that are to be implemented through FY 87. There are 12 projects having an estimated value of LS 136 million (about $105 million). Benchmarks have been established for these projects. The annex provides that GOS and USAID/Sudan will conduct semiannual reviews of each project in July and February, to review benchmarks, expenditures and annual budgets. Based on these reviews it will be decided whether to advance additional semiannual fund increments based on performance. In addition to the semiannual project reviews, the GOS and USAID/Sudan will carry out annual evaluations of the entire food for development program.

1/In addition, another $375 million in local currencies generated by the commodity import programs will have to be programmed for development purposes through fiscal year 1985.

USAID/Sudan in responding to the draft report that the action recommended has already been taken in conjunction with preparation of this year's Annex B, to the Title III agreement. Annex B was submitted to AID/W on June 4, 1984. USAID/Sudan suggested that our draft recommendation be deleted from the final report.

In view of the action proposed in Annex B, we have deleted the recommendation contained in our draft report.

Handbook 19 Needs To Be Revised To Eliminate The Two Year Disbursement Limitation

AID Handbook 19 (Financial Management), requires that disbursements from the special account be made within two years in order for the cooperating country to receive offsetting credits. However, we found that Title III legislation does not address this requirement. Also, this requirement is not specified in Handbook 9 (Food for Peace).

Handbook 19, Chapter 5, Sec. 5G7c(3)(e), dated April 18, 1977, states in part:

> "Disbursement of deposits in the country-owned Special Account 'R' is required within 2 years of each sum deposited. The Mission Controller is responsible for monitoring usage disbursements to ensure that any amounts not disbursed within 2 years after deposit are deducted from the original amount agreed for offset."

This requirement has not been incorporated in the Title III agreements.

USAID/Sudan officials stated that they do not know why the two year disbursement requirement has not been incorporated into the Title III Agreements and the Food for Peace Handbook 9. They mentioned that the language contained in Title III Agreements is provided by AID's Office of Food for Peace, in conjunction with other U.S. Government offices, such as USDA/CCC.

Conclusion, USAID/Response, RIG/A/N Comments, and Recommendation

Handbook 19 does not agree with Title III legislation because it requires that local currency generations must be disbursed within two years in order to be forgiven from loan repayment. Title III legislation does not include this requirement. This discrepancy should be reviewed and corrected.

USAID/Sudan, in responding to our draft report, stated that they had queried AID/W on this matter. AID/W, in their response to USAID/Sudan, stated that "Handbook 19, Chapter 5, became effective April 1977 and reflects Title I loan forgiveness legislation that was enacted in 1975. Title I loan forgiveness provisions were later revised by Title III legislation. Title III legislation does not establish two-year limitation on disbursement of local currency from the special account."

USAID/Sudan further stated that while the substance of the recommendation has been addressed, they agree that Handbook 19 should be revised to reflect amended Title III legislation and suggest recommendation be reworded to this effect.

We have reworded our recommendation accordingly.

RECOMMENDATION NO. 8

The Office of Financial Management (FM) revise Handbook 19 to reflect amended Title III legislation.

EXHIBIT I

USAID/Sudan
Schedule of Title III Funds Budgeted, Released, and Expended
As of December 31, 1983

PROJECT	BUDGET (LS000)	RELEASED (LS000)	EXPENDED (LS000)	
Railway Rehabilitation	LS 11,772	LS 11,772	LS 11,770	1/
Western Sudan Agr. Research	7,165	7,165	5,867	
Rural Health Support	1,076	1,076	246	
Regional Finance & Planning	1,140	640	640	4/
River Transport Corp.	1,750	1,750	996	1/
Southern Region Agr. Dev.	550	550	251	
Agr. Planning & Statistics	213	213	14	2/
Renewable Energy	592	592	474	
Policy Studies	119	119	119	3/
Abyei Rural Development	300	300	300	3/
Blue Nile Ing. Ag. Dev.	670	670	114	
USAID Trust Fund	7,760	7,760	1,208	
	LS 33,107	LS 32,607	LS 21,999	

1/ As of 6/30/83
2/ Net of CIP expenditures
3/ Completed project
4/ 12/31/83 report showed expenditures of LS 670,616

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List of Recommendations

RECOMMENDATION NO. 5 10

USAID/Sudan should reverse the $9.5 million of offsetting credits previously reported to the USDA/CCC.

RECOMMENDATION NO. 6 11

USAID/Sudan, in conjunction with the GOS, (a) review transactions recorded in the Title III special account and based on the results of the review adjust the account accordingly, and (b) establish procedures and controls that prevent funds from being credited to the wrong account in the future.

RECOMMENDATION NO. 7 13

USAID/Sudan establish controls to verify the accuracy of the information contained in GOS quarterly financial reports before offsetting credits are processed.

RECOMMENDATION NO. 8 16

The Office of Financial Management (FM) revise Handbook 19 to reflect amended Title III legislation.

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