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AUDIT OF USAID/LESOTHO'S USE OF LOCAL CURRENCY TO FUND MISSION OPERATIONS

AUDIT REPORT NO. 3-632-89-06
JANUARY 17, 1989

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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January 17, 1989

MEMORANDUM FOR DIRECTOR, USAID/Lesotho, Jesse L. Snyder

FROM: RIG/A/Nairobi, Richard C. Thabet

SUBJECT: Audit of USAID/Lesotho's Use of Local Currency to Fund Mission Operations

The Office of the Regional Inspector General for Audit, Nairobi completed an audit to determine whether there were local costs in the USAID/Lesotho operating expense budget that could be funded from trust funds instead of dollar appropriated funds. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains one recommendation which is considered resolved but will not be closed until completion of planned or promised actions. Please advise me within 30 days of any additional actions taken to implement the recommendation.

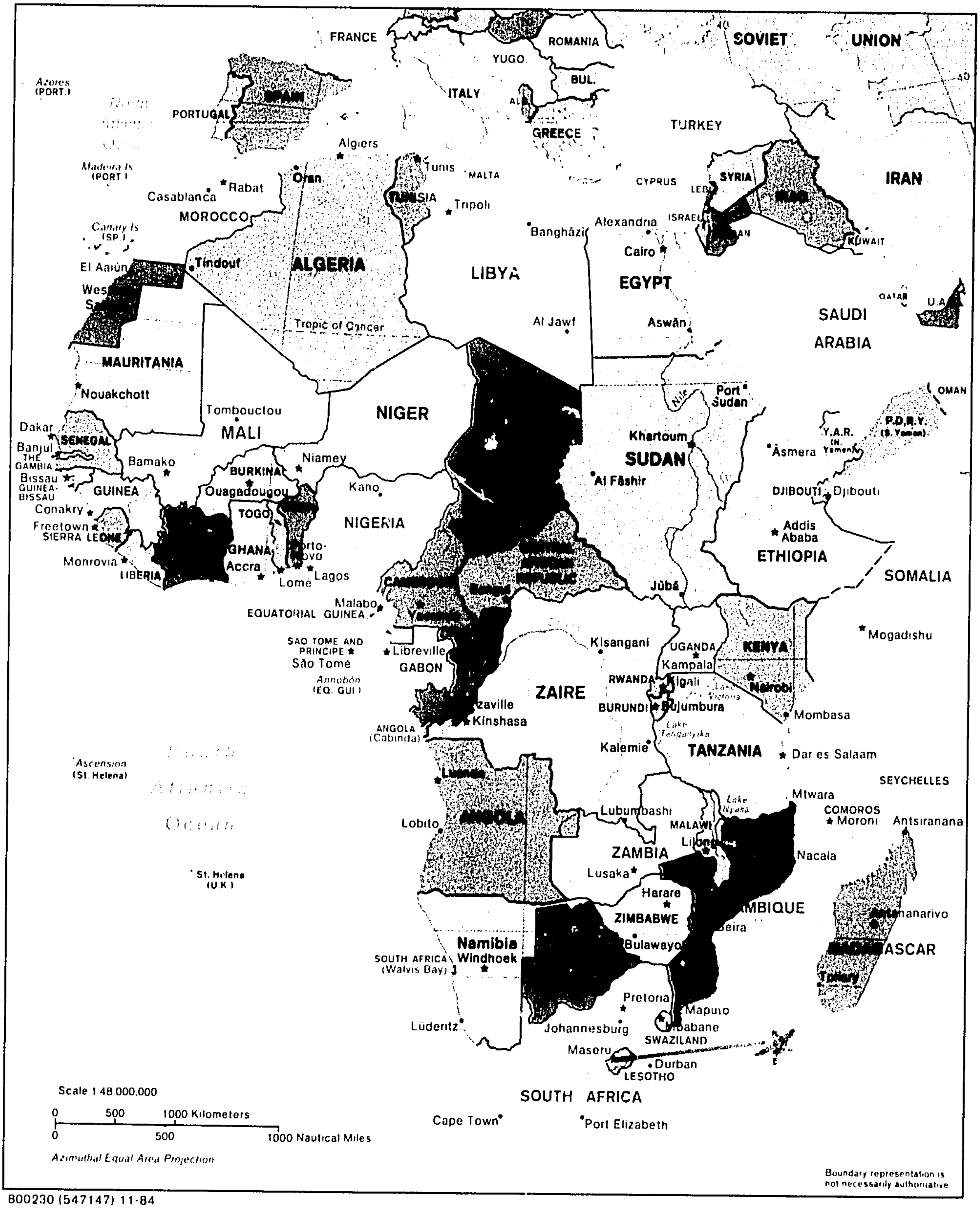
I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

The operating expense account accumulates the costs of A.I.D.'s basic operating functions apart from those costs directly associated with programs. Operating expense funds are used to finance such items as salary costs of local national employees, rents, utilities, furnishings, equipment, in-country travel, supplies, and other services obtained locally.

The operating expense account is funded from dollar appropriations and, in some cases, local currency trust funds. The trust funds are used to finance local operating expenses in lieu of appropriated dollars. Local currency used to support the establishment of a trust fund account are generated from dollar appropriated programs such as the Commodity Import Program and various cash transfers programs.

Africa



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In June 1988, USAID/Lesotho and the Government of Lesotho (GOL) entered into an Africa Economic Policy Reform Program Grant Agreement for $15 million. This cash transfer program is known as the Agriculture Policy Support Program. The agreement provided for $2.25 million to be made available for direct payments by USAID/Lesotho for technical and management assistance teams, evaluations and studies.

The remaining $12.75 million in cash transfers was to be released to the GOL in tranches over the four-year life of the program. As the $12.75 million is released, the GOL will deposit the local currency equivalent into two special accounts to be used for program activities.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Nairobi made an economy and efficiency audit to determine whether there were local costs in the USAID/Lesotho operating expense budget that could be funded from trust funds instead of dollar appropriated funds.

To accomplish this objective, the audit staff reviewed USAID/Lesotho dollar appropriated operating expense budgets for fiscal years 1989 and 1990, totalling about $1.0 and $1.1 million, respectively. Relevant financial records and documentation were reviewed and responsible USAID/Lesotho officials were interviewed. The audit was made during October and November 1988 at the USAID/Lesotho office in Maseru. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit showed that an estimated $632,000 in fiscal year 1989 and $720,000 in fiscal year 1990 local currency costs were budgeted using dollar appropriated operating expense funds. These expenditures could be funded by trust funds if a trust fund agreement was entered into between USAID/Lesotho and the Government of Lesotho. USAID/Lesotho and the host Government did not have such an agreement.

The report recommends that USAID/Lesotho (1) enter into negotiations with the GOL to establish a trust fund agreement and (2) prepare a Mission policy requiring the establishment of trust fund agreements for any future USAID/Lesotho projects that generate local currency.

USAID/Lesotho Needed to Establish a Trust Fund Agreement With the Government of Lesotho - A.I.D. missions are authorized to negotiate and enter into local currency trust fund agreements with host governments whereby trust funds can be used to pay some of the operating expenses paid in local currency obtained from appropriated U.S. dollars. USAID/Lesotho did not have a trust fund agreement with the Government of Lesotho. Such an agreement did not exist because the Mission believed it was inappropriate to request the Government of Lesotho to establish a trust fund account. Had a trust fund been established, USAID/Lesotho could use local currency to finance up to $1.35 million of fiscal years 1989 and 1990 local operating expenses instead of financing them with appropriated dollar funds.

Discussion - A.I.D. Handbook 19, Chapter 5 authorized missions to enter into agreements with cooperating countries for the sharing of the costs of authorized activities and functions. Under these procedures, the cooperating country would make local currency available for deposit into a U.S. trust fund in an amount and for the purposes agreed upon with A.I.D.

In addition, to support Federal deficit reduction efforts, AID/W advised missions on February 15, 1985 to use local currency to finance a portion of their operating expenses. In the cable to all missions, AID/W. stated: "All missions that do not have trust fund arrangements with the host country should initiate a serious dialogue for obtaining such funds. As a minimum, any country having cash transfers or CIP grants should be providing trust funds to support a portion of our operating expense local currency costs."

USAID/Lesotho's fiscal year 1989 Annual Budget Submission stated that a trust fund account would be established from local currency generated under the Agriculture Policy Support Program. The audit determined, however, that USAID/Lesotho had not entered into a trust fund agreement with the Government of Lesotho even though the Agriculture Policy Support Program will generate up to $12.75 million in local currency.

USAID/Lesotho officials informed us that they did not enter into negotiations to establish a trust fund because the Mission did not believe it was the intention of the Congress to use appropriated program funds (which generated local currency) to make up for shortfalls in USAID/Lesotho's operating expense budget. They also stated that it was not appropriate to establish a trust fund because the Government of Lesotho was in poor financial condition and therefore unable to contribute to the Mission's operating expenses.

In commenting on a Record of Audit Finding, the Mission pointed out that the GOL had, for fiscal years 1989 and 1990, committed itself beyond its budgetary resources. They believed, therefore, the issue of establishing a trust fund agreement in the near term was a mute point.

Notwithstanding the Mission officials' views, A.I.D.'s official world-wide policy is to establish trust fund accounts. Unless A.I.D. policy is changed, USAID/Lesotho should establish trust fund accounts whenever possible.

Further, we do not consider establishing a trust fund during fiscal years 1989 or 1990 a "mute point." Identifying ways to reduce the U.S. Federal budget deficit is one of the largest challenges facing today's Federal executives. Trust fund agreements have been a long-standing A.I.D. policy for reducing operating expenses. Contrary to its fiscal year 1989 Annual Budget Submission, however, USAID/Lesotho did not attempt to establish a trust fund under its Agriculture Policy Support Program. The Mission should take immediate steps to negotiate with the Government of Lesotho to direct a portion of local currency from its $12.75 million in Program cash transfers into a trust fund account.

Lack of a trust fund account will result in all USAID/Lesotho local operating expenses being funded from scarce dollar appropriated funds. Reviews of Mission operating expense budgets for fiscal years 1989 and 1990 indicated that up to $1.35 million of local costs could be funded from a trust fund if one were established.

Recommendation No. 1

We recommend that the Director, USAID/Lesotho:

(a) enter into negotiations with the Government of Lesotho to establish a trust fund agreement prior to the release of the first tranche of funds for the Agriculture Policy Support Program, and

b) establish a Mission policy to require negotiations for establishing trust fund agreements for all future local currency generating A.I.D. programs.

In commenting on the draft report (see Appendix 1), the Mission stated that by letter of December 6, 1988, it had initiated a dialogue with the Government of Lesotho for establishing a trust fund but had not yet received a response. Further, USAID/Lesotho was in the process of promulgating Mission policy requiring such negotiations for all future local currency generating A.I.D. programs.

Based on Mission comments, we consider Recommendation No. 1 resolved. We will close the recommendation upon receipt of (1) documentation showing that the Mission made good faith efforts during formal negotiations with the GOL to establish a trust fund agreement and (2) a copy of the new Mission policy.

ACTION: AID-3 INFO: ECON RL

APPENDIX 1

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DE RUEHRU #3704 3580736
ZNR UUUUU ZZH
P 230736Z DEC 88
FM AMEMBASSY MASERU
TO AMEMBASSY NAIROBI PRIORITY 5440
BT
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AIDAC

FOR RIG/A/N, TEAEET

E.O. 12356 N/A
SUBJECT: RIG/A/NAIROBI AUDIT REPORT NO. 3-632-89-XX (DRAFT)

REF: RIG/A MEMO SAME SUBJECT DATED DECEMBER 6, 1988

1. BY LETTER OF DECEMBER 6, 1988, MISSION INITIATED DIALOGUE WITH GOL FOR ESTABLISEMENT OF TRUST FUND. GOL RESPONSE IS PENDING. WE ARE IN PROCESS OF PROMULGATING MISSION POLICY REQUIRING SUCH NEGOTIATIONS FOR ALL FUTURE LOCAL CURRENCY GENERATING AID PROGRAMS.

2. WE HAVE NO FURTHER COMMENTS. SNYDER
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APPENDIX 2

REPORT DISTRIBUTION

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