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AUDIT OF
JORDAN COMMODITY IMPORT PROGRAM
PROGRAM NO. 278-K-643

Audit Report No. 3-278-90-01
October 31, 1989

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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October 31, 1989

MEMORANDUM FOR DIRECTOR, USAID/JORDAN,

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

SUBJECT: Audit of Jordan Commodity Import Program
Program No. 278-K-643

The Office of the Regional Inspector General for Audit, Nairobi has completed its audit of the Jordan Commodity Import Program. Attached are five copies of the audit report.

A draft report was submitted to you, and your comments are attached to the report. The report contains five recommendations. Recommendation Nos. 2, 3 and 4 are resolved and will be closed upon receipt by this office of evidence that shows that the recommended actions are complete. Recommendation Nos. 1 and 5 are unresolved. Please advise me within 30 days of all actions taken or planned to implement the recommendations.

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

EXECUTIVE SUMMARY

The Jordan Commodity Import Program was authorized in August 1985 to assist the Government of Jordan in meeting foreign exchange needs, achieving development objectives and improving standards of living. Obligations totalled $165.5 million for public and private sector imports during 1985, 1986 and 1987. Local currency sales proceeds were used for various projects which were providing schools, clinics, sewers and agricultural stations to the Jordanian people. The Program was administered by USAID/Jordan and implemented by the Government of Jordan's Ministry of Planning.

Under the Program, dollar payments for the commodities were made to the US suppliers by participating banks in the US. Upon receipt of public sector commodities, the local currency value of the goods was transferred from the buying Ministry's account in the Central Bank to the Program's special account in Jordan. The private sector importers would only pay 10 percent of the local currency value of the goods at the time of receipt and the balance would be paid over a 3-5 year period.

The recent regional recession, caused by declining oil prices, resulted in a draw-down of Jordan's foreign exchange reserves. In response, Commodity Import Program II was planned for fiscal years 1990 and 1991 with projected funding of at least $33.5 million.

The Office of the Regional Inspector General for Audit, Nairobi made an audit to determine whether: (a) import commodities had been ordered and received; (b) commodities met U.S. source and origin requirements; (c) local currency funded development projects were underway; (d) local currency funds were being generated to the maximum extent possible; (e) special account receipts and expenditures were being properly monitored; and (f) the provisions of Program documents, including exchange rate requirements, were complied with.

The program was successfully achieving its major goals and objectives and was generally being managed well. For example, $155 million in commodities, involving 621 transactions, had been ordered as of May 1989. Of this amount, commodities valued at $121 million had been received. Waivers for non-U.S. source and origin totalled only $3 million or 2 percent of Program funds. Also, local currency projects, such as schools and hospitals, were underway and the special account did not have large unused balances.

However, local currency funds were not generated to the maximum extent possible. Also, special account receipts and expenditures were not properly monitored due to the lack of account reconciliations and inadequate host government expenditure reporting. Further, the host government did not comply with established exchange rate provisions and various Program requirements and A.I.D. regulations.

Therefore, there was a need to fine-tune overall Program management from a Program results basis, but substantial corrective actions were needed in local currency fiscal accountability. As shown below, correcting the five problems identified in this report would provide up to JD 12.1 million ($27.8 million) in additional future local currency generations under Commodity Import Programs I and II and increase compliance with A.I.D. regulations and Program requirements.

First, according to A.I.D. policy, local currency generations should be deposited into interest-bearing accounts whenever possible. However, local currency funds generated by the Program were deposited into non-interest bearing accounts. This occurred because USAID/Jordan was misinformed that such accounts were prohibited by Government of Jordan regulations. About JD 0.6 million (about $1.7 million) could have been earned and used to finance development projects had the generations for the January 1986 to February 1989 period been deposited in interest bearing accounts. If corrected, about JD 2.3 million (about $4.3 million) in additional local currency could be realized under the remaining Program and all of Commodity Import Program II. The report recommends placing local currency generations into interest bearing commercial bank accounts. Mission management agreed with the general thrust of this recommendation. However, they felt the recommendation needed to be amended to apply only to future Commodity Import Programs.

Second, A.I.D. regulations required re-evaluations of programs when the economic environment changed. Although USAID/Jordan acknowledged that private sector incentives, such as concessionary interest rates, were no longer necessary towards the end of the Program, no re-adjustments were made. This occurred because the Mission did not have a mechanism to periodically review the continued need for incentives. About JD 0.2 million ($600,000) more could have been generated if incentives were eliminated towards the end of Commodity Import Program I. Eliminating them under Commodity Import Program II could generate an additional JD 1.2 million ($3.5 million).

The report recommends re-evaluating the private sector incentives with an aim of eliminating all or some of them and establishing a mechanism for periodically reviewing the need for any remaining incentives as the programs are implemented. Mission management agreed with this recommendation.

Third, A.I.D. regulations and prudent business practices required that bank statements be reconciled to Mission records. However, reconciliations for Program funds were either incomplete or not done at all. This occurred because there were no USAID/Jordan procedures requiring reconciliations of bank statements with amortization schedules, shipping records and Mission approved expenditure schedules. Although the auditors unsuccessfully attempted to reconcile the special account with the commodities shipped, it was evident that (1) one bank account had JD 352,605 ($655,400) less deposits than it should have had and (2) another bank account had JD 76,934 ($216,000) less deposits and JD 70,842 ($131,677) more disbursements than it should have had. The report recommends recovering JD 500,381 (about $1,003,077); contracting for an independent public accounting firm audit to determine whether all funds have been received and properly disbursed; and establishing procedures for monthly reconciliations. Mission management agreed with this recommendation.

Fourth, the Grant Agreement required the Mission and Government of Jordan to mutually agree on Program funded development projects and their spending levels. Although the total 1988 spending ceiling was not exceeded, a year-end expenditure report showed that six projects exceeded their individual budgets by JD4.6 million ($11.9 million). The Mission was unaware of this problem until the end of the year, because the host government did not submit required quarterly expenditure reports. As a result, the Government of Jordan spent millions of Program generated Jordanian dinars without meaningful Mission input and oversight. The report recommends retroactive approval of excess expenditures which are determined to be consistent with the Program goals and requiring the Government of Jordan to reimburse the special account for those excesses which are not consistent with those goals. The report also recommends requiring the Government to develop a quarterly financial reporting system. Mission management agreed with this recommendation.

Finally, a Memorandum of Understanding between USAID/Jordan and the Government of Jordan required local currency deposits into the special account at the highest rate of exchange on the day of deposit. However, the Central Bank of Jordan used the rate of exchange at the letter of credit date. This occurred, according to Mission management, because the Memorandum of Understanding did not reflect USAID/Jordan's or the host government's desires to use the letter of credit date. Unless this matter is resolved, an estimated JD 3.5 million ($7.1 million) will be underpaid to the special account based on the mutually binding terms of the Memorandum of Understanding. The report recommends either requiring the Government of Jordan to deposit into the special account additional local currency funds to correct the inaccuracies related to exchange rate conversions or clearing up the confusion created from conflicting program documents by amending the Memorandum of Understanding. Mission management did not believe the host government should reimburse the special account because the Memorandum of Understanding did not reflect their desire to use the letter of credit date.

Office of the Inspector General

AUDIT OF
JORDAN COMMODITY IMPORT PROGRAM

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AUDIT OF
JORDAN COMMODITY IMPORT PROGRAM

PART I - INTRODUCTION

A. Background

The Jordan Commodity Import Program (CIP) was authorized on August 15, 1985 under the Fiscal Year 1985 Supplemental Appropriation Act. The purpose of the Program was to assist the Government of Jordan in meeting foreign exchange needs, achieving development objectives and improving standards of living. The Program was to provide foreign exchange to facilitate importation of critical commodities, such as machinery, needed by the public and private sectors. Local currency generated by the Program was to be deposited in special accounts and would be used for development activities mutually agreed by USAID/Jordan and the Government.

Obligations totalled $165.5 million during 1985, 1986 and 1987. Of this, $86.5 million was allocated to the public sector and $79.0 million was directed to the private sector. About $121 million had been expended as of February 1989.

Local currency funds generated by the Program were used for various projects that were providing schools, clinics, sewers and agricultural stations to the Jordanian people. During fiscal years 1987 and 1988, a total of JD20 million (about $52 million) was transferred from the special account to support these projects.

The Program was administered by USAID/Jordan and implemented by the Government of Jordan's Ministry of Planning. The Mission's Commodity Import Program Office had the principal responsibility for coordinating various activities with the Ministry of Planning and the private sector including commodity ordering, financing, shipping and local currency project planning. The Controller's Office was responsible for arrival accounting and end-use checks.

Under the Program, Government ministries (public sector component) and private importers (private sector component) wishing to buy U.S. goods would send specifications for approval to the Government's Ministry of Planning and USAID/Jordan. Letters of credit would be sent to one of three U.S. Banks used under the Program which would make payments to the U.S. suppliers. For the public sector, the local currency equivalent of the letter of credit value would be transferred from the buying Ministry's account in the Central Bank to the Program's special account upon receipt of the goods. Only 10 percent of the letter of credit value would be deposited into the special account for the private sector upon the receipt of goods. The remaining 90 percent would be paid over a 3-5 year period and interest of between 6.25 to 10.50 percent would be charged.

The recent regional recession, caused by declining oil prices, resulted in a draw-down of Jordan's foreign exchange reserves. In response, another Commodity Import Program (CIP II) was planned for fiscal years 1990 and 1991 with projected funding of at least $33.5 million.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Nairobi made an audit to determine whether: (a) import commodities had been ordered and received; (b) commodities met U.S. source and origin requirements; (c) local currency funded development projects were underway; (d) local currency funds were being generated to the maximum extent possible; (e) special account receipts and expenditures were being properly monitored; and (f) the provisions of Program documents, including exchange rate requirements, were complied with.

To accomplish these objectives, the audit staff conducted its review at USAID/Jordan and Government of Jordan offices in Amman. The audit staff obtained and reviewed relevant documentation and interviewed high level officials of USAID/Jordan, the Government of Jordan's Ministries of Planning and Finance, the Central Bank of Jordan and two commercial banks. Site visits were also made to physically inspect the commodities and local currency funded projects.

The audit covered the period from September 1985 through February 1989. The Jordanian Dinars amounting to JD 25.5 million ($75 million) were examined and tested to determine whether the correct amount of local currency proceeds was deposited. The total local currency expenditures of JD 20 million ($52 million) for fiscal years 1987 and 1988 from the special account were also reviewed. CIP commodities, worth $28.5 million, were physically inspected. Review of internal controls and compliance was limited to the issues discussed in the report.

Actual exchange rates were used throughout the report when converting historical data. Estimated savings were based on a combination of historical exchange rates and the exchange rate at the time of the audit.

The field work was performed from April 1989 to June 1989 and was made in accordance with generally accepted government auditing standards.

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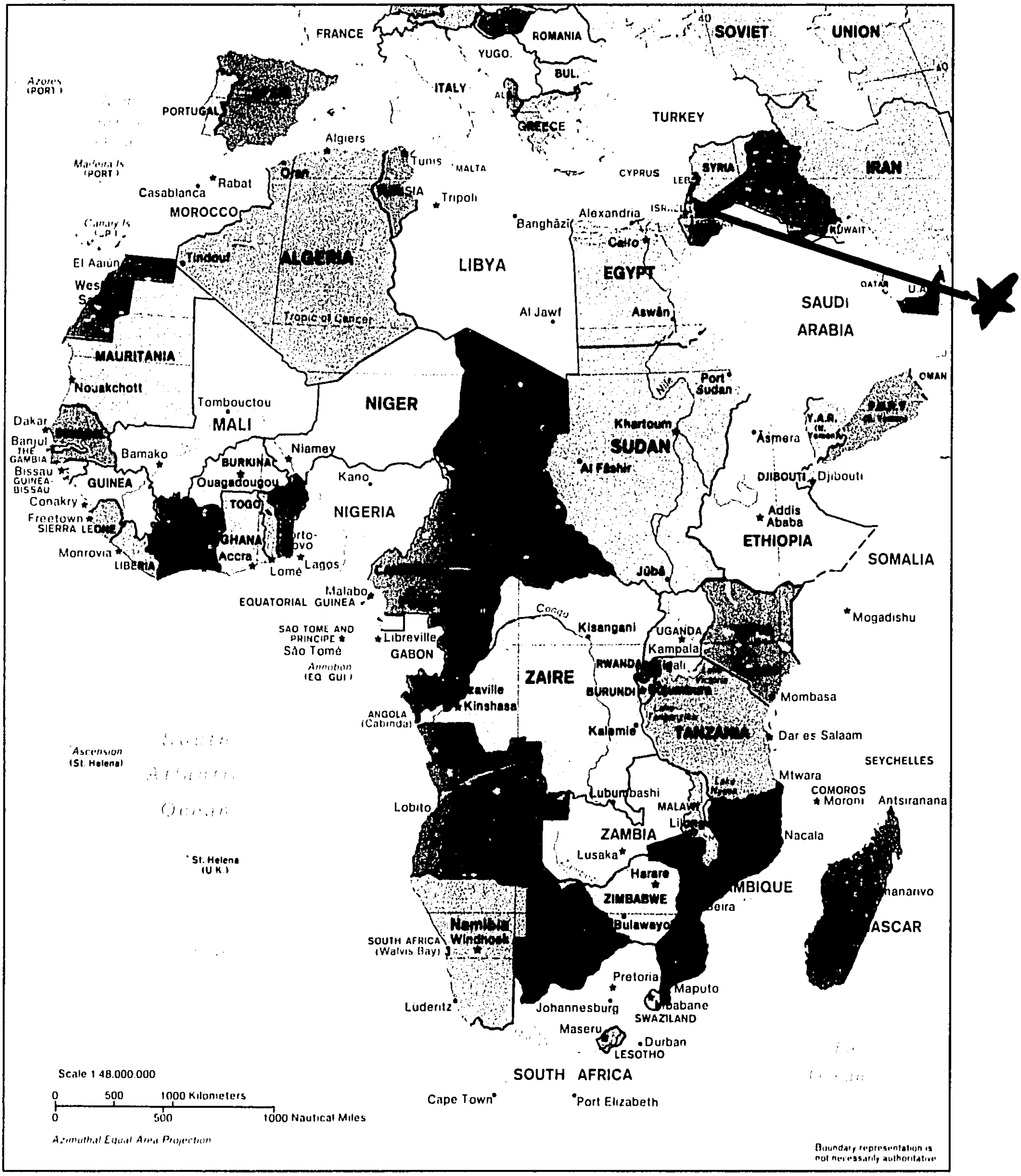

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AUDIT OF
COMMODITY IMPORT PROGRAM IN JORDAN

PART II - RESULTS OF AUDIT

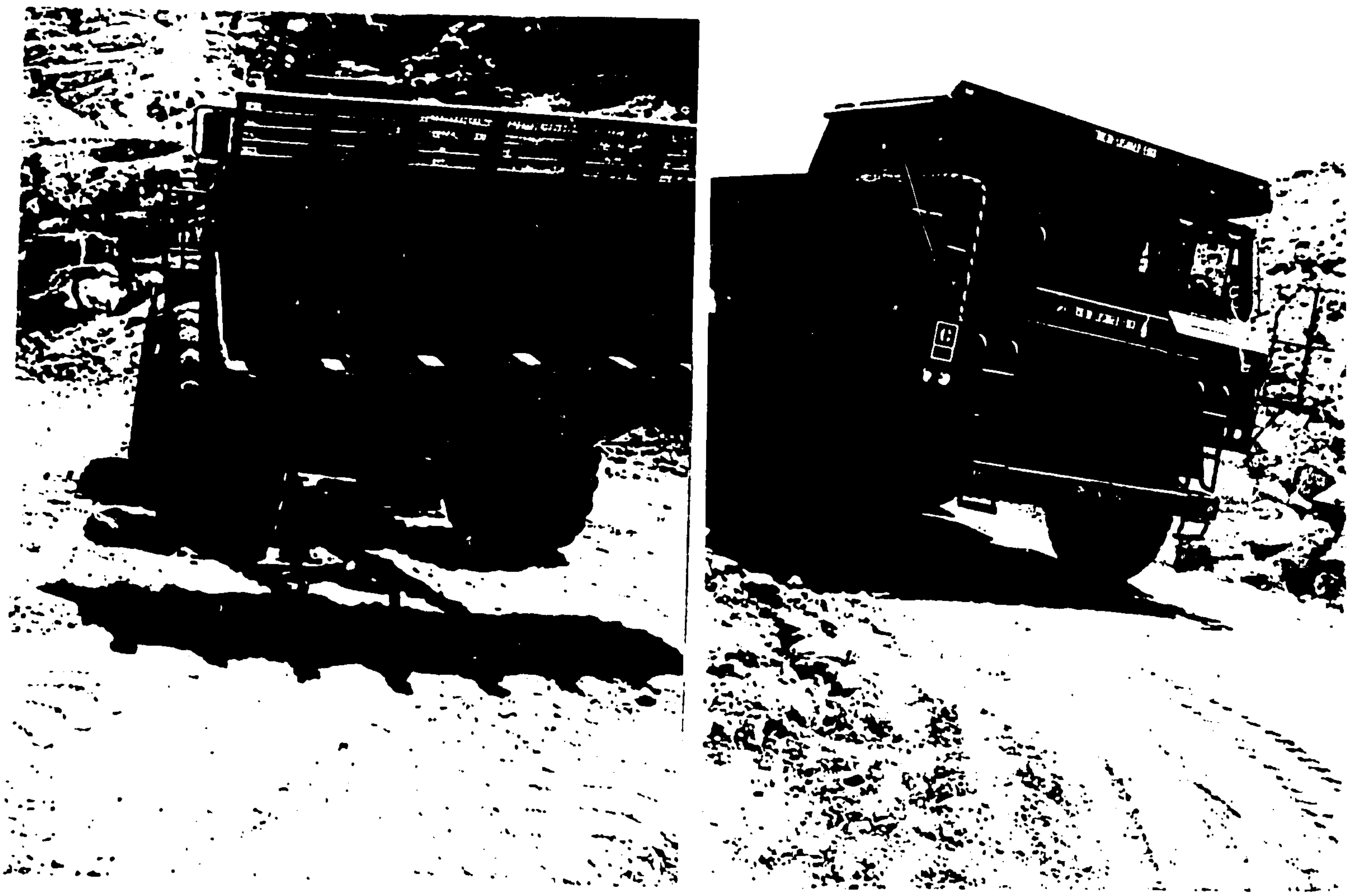
The Program was successfully achieving its major goals and objectives and was generally being managed well. However, local currency funds were not generated to the maximum extent possible, special account receipts and expenditures were not properly monitored, and stated exchanged rate requirements were not enforced. Also, some Program requirements and applicable A.I.D. regulations were not complied with. Therefore, there was a need to fine-tune overall Program management from a Program results basis, but substantial corrective actions were needed in local currency fiscal accountability.

On the positive side, $155 million worth of commodities, involving 621 transactions totalling 94 percent of the $165.5 million CIP I Program, had been ordered as of May 1989. Of this amount, commodities valued at about $121 million had been received. Most of the commodities had been purchased from the U.S. and only $3 million (2 percent) was of both non-U.S. source and origin. Also, nine USAID, eight World Bank, and two Government of Jordan local currency projects, together totalling JD 20 million ($52 million) through 1988 had been funded from the CIP Program. These projects were providing schools, sewers, hospitals and agricultural stations to the Jordanian people. Further, the special account did not have large unused balances, averaging JD 2.5 million ($6.8 million) for the period January 1986 to February 1989.

However, the audit identified five problems: (1) local currency generated funds were deposited in non-interest bearing accounts; (2) incentives given to the private sector, which reduced local currency generations, may no longer be required; (3) special accounts were not properly reconciled by the Mission; (4) expenditure reporting by the Government was not satisfactory; and (5) the Government of Jordan did not comply with the exchange rate requirements for public sector deposits.

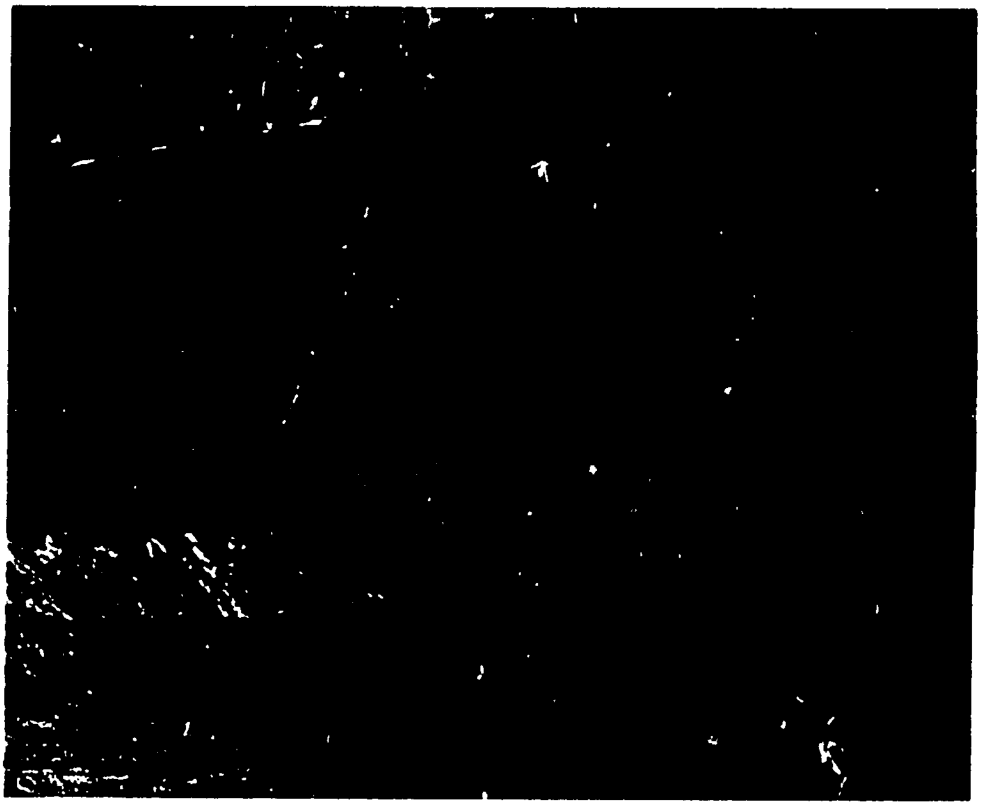
Correcting these problems would provide up to JD 12.1 million ($27.8 million) in additional future local currency generations and increased compliance with A.I.D. regulations and Program requirements. The report recommends that: (1) local currency generations be deposited in interest bearing accounts; (2) incentives to the private sector be re-evaluated under the next Commodity Import Program; (3) reconciliations of the special accounts be done; (4) a review of 1988 expenditure over-runs be done to determine if they should be retroactively approved; and (5) additional local currency be deposited into the special account to correct the inaccuracies related to exchange rate conversions or the confusion created by conflicting signed documents be cleared up.

Figure 1: Examples of roadmaking equipment bought under the Jordan CIP.



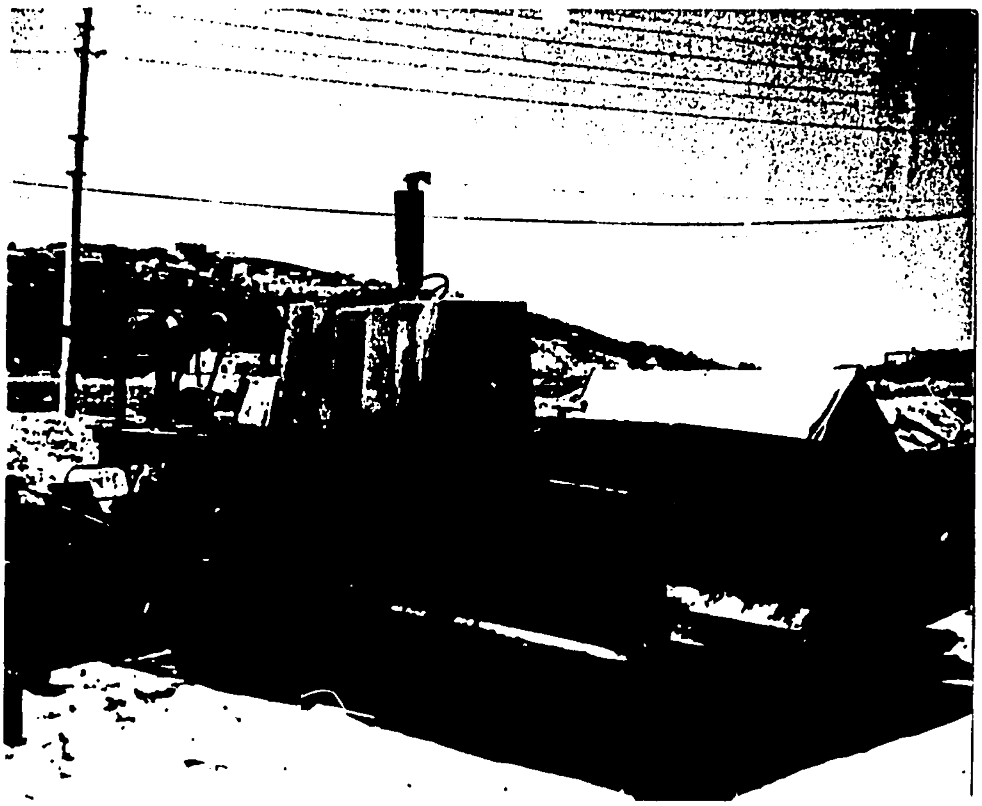
The truck and loader pictured above were being used for the construction of the Zara-Ghor Haditha Highway along the eastern shore of the Dead Sea. When completed this highway will be the shortest link between Amman and Aqaba.

Figure 2: Example of mining equipment purchased under the Jordan CIP.



The dragline pictured above was being used at the Al Abied Phosphate Mine site excavating phosphate ore.

Figure 3: Example of road finishing equipment bought under the Jordan CIP.



This asphalt finisher was acquired by a local contracting company. It was in use building the Aen Bashe Main Road near Amman.

A. Findings and Recommendations

1. Additional Program Funds Could Be Generated From Interest Bearing Accounts

According to A.I.D. policy, local currency generations should be deposited into interest-bearing accounts whenever possible. However, local currency funds generated by the Program were deposited into non-interest bearing accounts. This occurred because USAID/Jordan was misinformed that such accounts were prohibited by Government of Jordan regulations. About JD 0.6 million (about $1.7 million) could have been earned and used to finance development projects had the generations for the January 1986 to February 1989 period been deposited in interest bearing accounts. If corrected, about JD 2.3 million (about $4.3 million) in additional local currency could be realized under the remaining Program and all of Commodity Import Program II.

Recommendation No. 1

We recommend that the Director, USAID/Jordan require the Government of Jordan to place Commodity Import Program local currency generations into interest-bearing commercial bank accounts.

Discussion

Policy Determination No. 5, as amended in 1984, recommended that local currency generations, not readily needed, be deposited in interest bearing accounts in a commercial bank. Interest earned on deposits could be used to finance development projects. In addition, a Department of State cable of October 21, 1987 recommended that "local currency be placed into an interest bearing account, in a deposit taking institution" unless prohibited by host country law.

The local currency funds generated by the Jordan CIP were deposited in two non-interest bearing accounts in the Central Bank of Jordan. The first, account No. 3660/1902/3, was opened in January 1986. The average balance in this account for the period January 1986 to February 1989 was JD2,536,773 (about $6,851,338). The second special account, No. 3100/17/1, was opened in November 1986 for $5.5 million in Gaza/West Bank projects. The average balance in this account was about JD 1,095,319 (about $3,260,019).

A USAID/Jordan letter dated November 22, 1987 (22 months after one special account was opened) recommended to the Government of Jordan that local currency proceeds be placed in an interest bearing account preferably in a commercial bank. The interest earned would be programmed in the same way as the principle.

USAID/Jordan officials stated that the host government, in a high level meeting in December 1987, advised them verbally that putting local currency proceeds in a commercial bank was against their regulations. The Government also told the Mission that the account could be placed in the Central Bank with a low interest rate, but that the Central Bank would charge a management fee which would largely offset any interest earned.

Government officials could not provide us a copy of the regulation prohibiting placing local currency proceeds in an interest bearing commercial bank account. Further, a Central Bank senior official informed us that there was no law precluding the deposit of CIP funds in such an account; it was only a tradition to not do so.

The local currency amounting to JD 25.8 million (about $76.5 million) was deposited in a non-interest bearing account over a 38 month period from January 1986 to February 1989. If these funds had been deposited into an interest bearing commercial bank account from the time of the first deposit in January 1986, an estimated JD 0.6 million (about $1.7 million) could have been earned at a prevailing interest rate of 8 percent. If local currency generations from the remainder of the initial Program and all of the next Commodity Import Program (CIP II) were deposited into an interest bearing account, we estimate that interest earnings of about JD 2.3 million ($4.3 million) could be earned assuming a future 7.5 percent interest rate.

This includes JD 1.0 million ($1.8 million) for CIP I and JD 1.3 million ($2.5 million) for CIP II. The amount for CIP I represents the interest that could have been earned if the funds remaining under CIP I were deposited in an interest bearing account when this information was brought to the attention of Management. The amount for CIP II is based on the same average monthly balance which was maintained in account No. 3660/1902/3 between January 1986 to February 1989.

In conclusion, USAID/Jordan needed to require the Government of Jordan to place the local currency generations in an interest bearing Commercial bank account. By so doing, a substantial amount of additional local currency could be earned which would be used to finance additional development projects.

Management Comments

In their response to the draft report, USAID/Jordan agreed with this finding but felt that Recommendation No. 1 needed to be revised to apply only to future CIPs because they had agreed with the Government on non-interest bearing accounts for CIP I. The Mission also took exception to inclusion of amounts relating to CIP II in our calculation of expected future savings on the basis that the Program was not yet in existence. Finally, Mission management suggested various presentation revisions which were made.

Office of Inspector General Comments

This finding demonstrated that the Mission was misinformed that interest bearing accounts were prohibited under Government of Jordan regulations. Consequently, the Mission should renegotiate CIP I arrangements in light of this new information. The report also included CIP II in the computation of future interest in order to demonstrate the potential monetary benefit of negotiating interest bearing accounts for future programs. Although CIP II was not yet in existence at the time of the audit, information was available in the Mission that the Program would start in fiscal year 1990 and that the level of funding would be at least $33.5 million. Recommendation No. 1 is considered unresolved.

2. USAID/Jordan Should Re-evaluate Private Sector Incentives Under Commodity Import Program II

A.I.D. regulations required re-evaluations of programs when the economic environment changed. Although USAID/Jordan acknowledged that private sector incentives, such as concessionary interest rates, were no longer necessary towards the end of the Program, no re-adjustments were made. This occurred because the Mission did not have a mechanism to periodically review the continued need for incentives. About JD 0.2 million ($600,000) more could have been generated if incentives were eliminated towards the end of Commodity Import Program I. Eliminating them under Commodity Import Program II could generate an additional JD 1.2 million ($3.5 million).

Recommendation No. 2

We recommend that the Director, USAID/Jordan: (a) re-evaluate the need for private sector incentives under the next Commodity Import Program with an aim of eliminating all or some of them; and (b) establish a mechanism for periodically reviewing the need for incentives as future programs are implemented.

Discussion

A.I.D. Handbook 3 required re-evaluation of development assistance programs when the economic environment changed. The Handbook stated that A.I.D. recognized that good project design, effective implementation and evaluation go hand-in-hand. As a result, and in recognition of the dynamic nature of the development environment, A.I.D. policy supported the adjustment of program designs and implementation methods to maintain their relevance and effectiveness under changing conditions. The Handbook concluded that such flexibility was a critical tool for sound program management.

In accordance with the original Grant Agreement, a banking circular was approved by USAID/Jordan and the Government of Jordan to implement the CIP's private sector component. This circular provided for concessionary interest rates to importers as low as 6.25 percent. Further, commodity prices were based on the highest exchange rate prevailing on the letter of credit date. Finally, in addition to payments of the principal amounts on behalf of the importers, participating commercial banks paid into the special account only 80 percent of the interest payments. The remaining 20 percent share of interest was retained by the participating commercial banks as an administrative fee for implementing the Program.

Early in 1986, discussions were held between USAID/Jordan, the host government and various private sector firms to devise ways to increase private sector participation in the Program. For example, for the period up to March 1986, only about $1.1 million worth of letters of credit had been issued. Also, only two firms, one of them a parastatal, were participating. USAID found that many importers wanted to use the Program but that their bankers did not because the Program was new and the procedures involved were unknown to commercial banks.

As a result of these discussions, Implementation Letter No. 9 was signed on April 27, 1986. This implementation letter amended the provisions of the original Grant Agreement and the banking circular to make the Program more attractive to the private sector firms and banks. The exchange rate for the entire transaction was set at the lowest exchange rate that occurred from the date the letter of credit was issued to the date of the shipment of the commodities. Also, the participating banks' share of interest was increased from 20 to 50 percent. The concessionary interest rate provision of the banking circular was not changed since it was believed that it was sufficiently low.

These new incentives stimulated demand for Program funds at a rate which enabled the private sector allocation to flow within the initially planned time period of about three years. However, in adopting the incentives to accelerate the speed of the program, there was an accepted acknowledgment by USAID/Jordan and the host government that the total amount of local currency generation would be reduced on a per-transaction basis.

Although incentives were necessary under the initial CIP to increase demand, later adverse economic conditions raised questions as to whether they were still needed at the end of the Program and under CIP II. According to the Mission economist and two leading local bankers, the regional recession caused by falling oil prices resulted in a scarcity of Jordan's foreign exchange reserves. Worker remittances from Jordanians working in neighboring Arab states and grant aid from those countries were Jordan's main source of foreign exchange. The decline in oil prices resulted in a reduction of worker remittances and grant aid to Jordan.

As a result, Jordanian firms' and commercial banks' demand for foreign exchange provided by the Program was much stronger than at the time the Program was established. Consequently, USAID/Jordan acknowledged that incentives needed earlier were no longer necessary during the latter part of the Program (August 1988) because of the change in the economic environment. Mission officials stated that although some incentives may still be needed, there was no need for all the incentives to continue under the next Program and that each should be re-evaluated. Further, an on-going evaluation of the CIP stated that the concessionary interest rate schedule needed to be raised to at least 10 percent and the share of interest to the participating commercial banks needed to be lowered to a maximum of 30 percent.

About $6 million remained available for private sector CIP financing when the Mission acknowledged that the economic environment in Jordan changed to the extent that some or all of the incentives could have been reduced or eliminated. About JD206,013 ($624,081) in additional local currency generations could have been earned if all the incentives were eliminated at that time as follows:

(a)	concessionary interest1/	JD 54,350	$171,770
(b)	lowest exchange rate2/	70,464	210,522
(c)	50/50 sharing of Interest3/	81,199	241,789
		JD206,013	$624,081

Eliminating all or some of these incentives under a $33.5 million CIP II will allow the generation of up to JD 1.2 million ($3.5 million) in additional local currency as shown below:

(a)	concessionary interest4/	JD 303,652	$ 959,278
(b)	lowest exchange rate4/	393,519	1,175,694
(c)	50/50 sharing of Interest4/	453,467	1,350,312
		JD1,150,638	3,485,284

In conclusion, because of the change in the economic environment, there was a need to re-evaluate all the incentives to determine their continued need. By so doing, up to $3.5 million in additional local currency could be generated under the $33.5 million CIP II.

1/ Based on the difference between the average interest rate outside the Program of 9 percent and the actual interest rate used.

2/ Based on the difference between the highest rate of exchange on the day of deposit and the actual rate of exchange used.

3/ Based on the difference between 50 and 20 percent share of interest to participating commercial banks.

4/ The methodology used here is the same as that used for CIP I above.

Management Comments

In commenting on the draft report, Mission management agreed with the finding and the recommendation. They suggested presentation changes which were incorporated in the final report.

Office of Inspector General Comments

We consider Recommendation No. 2 resolved. The recommendation will be closed once the Office of the Inspector General receives supporting documentation of the Mission's actions to re-evaluate the need for private sector incentives under CIP II and the establishment of a mechanism for periodically reviewing the need for incentives as the programs are implemented.

3. Special Account Reconciliations Needed Improvement

A.I.D. regulations and prudent business practices required that bank statements be reconciled to Mission records. However, reconciliations for Program funds were either incomplete or not done at all. This occurred because there were no USAID/Jordan procedures requiring reconciliations of bank statements with amortization schedules, shipping records and Mission approved expenditure schedules. Although the auditors unsuccessfully attempted to reconcile the special account with the commodities shipped, it was evident that (1) one bank account had the JD equivalent of $655,400 less deposits than it should have had and (2) another bank account had JD76,934 ($216,000) less deposits and JD 70,842 ($131,677) more disbursements than it should have had.

Recommendation No. 3

We recommend that the Director, USAID/Jordan:

a. require the Government of Jordan to deposit into special account No. 3660/1902/3 the local currency equivalent of JD 352,605 ($655,400) relating to public sector transaction No. 224;

b. require the Government of Jordan to deposit the local currency equivalent of JD 76,934 (about $216,000) into special account No. 3100/17/1;

c. require the Government of Jordan to deposit the local currency equivalent of JD 70,842 ($131,677) into special account No. 3100/17/1;

d. contract with an independent public accounting firm to perform a non-Federal audit to ensure that all funds due under Commodity Import Program I have been deposited into the special accounts and that all disbursements were proper; and

e. establish procedures for monthly reconciliations of the Commodity Import Program special accounts.

Discussion

A.I.D. Handbook 19 required that A.I.D.'s accounting and reporting systems provide effective control over and accountability for all funds. The purpose of these regulations was to ensure that U.S. Government resources were adequately protected, and that accountability could be maintained. Reconciliation of bank statements with Mission Program records, a prudent business practice, is an effective method of establishing control over and accountability for Program funds.

Local currency funds generated from the CIP were deposited into two special accounts in the Central Bank of Jordan -- special account Nos. 3100/17/1 and 3660/1902/3. No reconciliation of special account No. 3100/17/1 was done. USAID/Jordan's controller office partially reconciled special account No. 3660/1902/3. However, the reconciliations only involved agreeing the total monthly deposit shown in the bank statement with the individual deposits shown by the same statement. No reconciliation between the monthly bank deposits with private sector amortization schedules1/ was done. Further, no attempts were made to reconcile special account deposits with the value of the commodities shipped under the public sector component. Similarly, special account withdrawals were not matched with Mission approved Government of Jordan expenditure schedules.

This occurred because USAID/Jordan did not have procedures requiring reconciliations of bank statements with Mission Program records. As a result, Mission staff did not consider reconciliations as part of their duties.

As of February 1989, JD8,382,596 ($26,481,723) had been deposited by the Central Bank of Jordan into special account No. 3660/1902/3 for the private sector segment of the Program. However, the Mission could only verify JD7,646,994 ($24,157,860). The difference of JD735,602 ($2,323,863) according to Mission officials, represented deposits made for which the Mission did not have private sector amortization schedules.

Due to the lack of these schedules and other miscellaneous documentation, this audit was unable to reconcile the special account deposits with the dollar value of the shipments. However, the attempted reconciliation showed that there was a significant problem relating to the deposit and withdrawal of funds to and from the special accounts. For example, as of February 1989, there was an under-deposit of JD 352,605 ($655,400) and an under-deposit of JD 76,934 ($216,000) to special account nos. 3660/1902/3 and 3100/17/1, respectively. Further, there was an over-drawing of JD 70,842 ($131,677) from account No. 3100/17/1.

1/ The amortization schedules related to Jordanian importers' monthly loan repayments to the special account under the private sector component of the the Program.

Program commodities worth JD 352,605 ($655,400) purchased under public sector transaction No. 224 had been received in Jordan by February 1989. However, related local currency generations had not been deposited into the special account as of May 1989. This transaction was under a Participating Agency Service Agreement (PASA) for the supply and installation of seismic system and geophysical equipment.

In another example, USAID/Jordan, by Implementation Letter No. 91 of April 14, 1987, requested the Government of Jordan to verify that the equivalent of JD1,571,156 ($4,548,000) had been deposited in the special account No. 3100/17/1. The Government of Jordan, by a letter of March 1988, stated that JD1,494,221 was deposited in the special account. The letter did not give an explanation of the difference between the amount deposited and the amount requested to be deposited by the Mission's April 1987 letter. Also, the Mission did not send a follow-up letter requesting an explanation for the difference of JD76,934 (about $216,000).

Further, according to a reconciliation prepared by the Central Bank of Jordan, the JD1,494,221 was deposited into the special account on November 20, 1986 and by April 26, 1987 everything had been expended. However, according to a schedule prepared by the Government of Jordan, JD70,842 (about $131,677) had not been expended and should still have been in the account as of March 31, 1989.

In conclusion, the Mission needed to require the Government to deposit into the special account the amounts under-deposited/overspent. Also, the Mission needed to contract for a non-Federal audit to perform an overall reconciliation of the special account bank statements with Program records. Finally, there was a need to establish procedures for monthly reconciliations of the special accounts.

Management Comments

In commenting on the draft report, Mission Management agreed with the finding and the recommendation. They suggested presentation revisions which were made.

Office of Inspector General Comments

Based on the Mission's response, Recommendation No. 3 is considered resolved. The recommendation will be closed once the Inspector General's Office receives supporting documentation from the Mission on completion of recommended actions.

4. Financial Reporting Needed Improvement

The Grant Agreement required the Mission and Government of Jordan to mutually agree on Program funded development projects and their spending levels. Although the total 1988 spending ceiling was not exceeded, a year-end expenditure report showed that six projects exceeded their individual budgets by JD4.6 million ($11.9 million). The Mission was unaware of this problem until the end of the year, because the host government did not submit required quarterly expenditures reports. As a result, the Government of Jordan spent millions of Program generated Jordanian dinars without meaningful Mission input and oversight.

Recommendation No. 4

We recommend that the Director, USAID/Jordan:

a. review the specific over-expenditures to determine if the costs were consistent with project goals and (i) if they were, amend the agreed spending ceilings to ratify the expenditures, and (ii) if they were not within the scopes of the projects, require the Government of Jordan to reimburse the special account accordingly;

b. require the Government of Jordan to develop a quarterly expenditure reporting system that shows approved allocations, actual expenditures and sources of funding for each local currency project funded with Program funds; and

c. establish procedures whereby the GOJ must clear with USAID any contemplated adjustments to agreed budget line item amounts.

Discussion

In accordance with Article 6.6 of the original Grant Agreement, a Memorandum of Understanding (MOU) regarding the special account was signed on April 3, 1986. Article III of the MOU required the Government of Jordan and USAID/Jordan to mutually agree on Program funded development projects and individual project spending levels.

Implementation Agreement No. 1 to the April 1986 MOU was signed on December 24, 1987. In that agreement, USAID/Jordan and the Government of Jordan agreed that nineteen projects (nine USAID/Jordan projects, eight World Bank projects and two Government of Jordan projects) would be supported in 1988 with JD 27.60 million ($52 million) in Program funds.

Although the total programmed expenditure ceiling was not exceeded, a December 1988 Government expenditure report showed that expenditure ceilings for six individual projects were exceeded by JD 4.634 million ($11.9 million).

The Mission was unaware of this problem until the end of the year because expenditure reports were not submitted quarterly as required by the Grant Agreement Implementation letter of October 29, 1985. The Government of Jordan submitted reports for October, November and December 1988, but the reports did not show approved allocations, actual expenditures and sources of funding for each local currency project funded.

As a result, the Government of Jordan spent millions of program generated Jordanian dinars without meaningful Mission input or oversight. In six projects, the Government exceeded agreed upon spending ceilings while 13 projects received less funding than planned.

In conclusion, an inadequate expenditure reporting system prevented USAID/Jordan from knowing whether mutually agreed upon spending levels for each project were exceeded. Although the report, in line with Mission comments, recommends retroactive approval of excess expenditures which are consistent with project goals, this should not be done in the future. Whenever the need for more funds arises, both parties should discuss it and mutually agree on more funding before additional expenditures are made.

Management Comments

In responding to the draft report, Mission management agreed with the finding and recommendation except for the reimbursement requirement. They stated that the purposes of the Foreign Assistance Act would not be served by requiring the Government of Jordan to reimburse the special account for expenditures in excess of the agreed upon levels. They suggested that section (a) of the recommendation be revised to require the Mission to retroactively accept over-expenditures because the total programmed expenditure was not exceeded and that over expenditures were for approved projects. They also suggested presentation revisions which were made.

Office of Inspector General Comments

In line with Mission comments, we amended part (a) of the recommendation to allow for retroactive approval of these expenditure overruns which were consistent with the project goals. However, the overruns could have been avoided if the Mission was watchful. Consequently, in the future, cost overruns should not be retroactively approved and the Government should reimburse the special account for any excesses.

The intent of mutually agreeing on projects to be funded with Program generated local currencies and their funding ceilings was to allow the Mission input and oversight over the use of such funds. It is true that the total programmed expenditure was not exceeded. However, the Government spent more than what A.I.D. wanted to spend on six projects and by so doing could only spend less than what A.I.D. wanted to spend on 13 other projects. RIG/A/N believes that the whole programming process becomes meaningless if the Government unilaterally decides to spend more than what A.I.D. and the Government previously agreed to spend on some projects and the Mission merely retroactively approves such excesses.

Recommendation No. 4 is considered resolved. The recommendation will be closed after RIG/A/N receives documentation showing that (1) an analysis of over-expenditures was performed and any improper expenditures were recovered; (2) a quarterly expenditure reporting system was established; and (3) procedures have been established requiring USAID approval of adjustments of budget line items.

5. The Government Of Jordan Did Not Comply With the Exchange Rate Requirements For Public Sector Deposits

A Memorandum of Understanding between USAID/Jordan and the Government of Jordan required local currency deposits into the special account at the highest rate of exchange on the day of deposit. However, the Central Bank of Jordan used the rate of exchange at the letter of credit date. This occurred, according to Mission management, because the Memorandum of Understanding did not reflect USAID/Jordan's or the host government's desires to use the letter of credit date. Unless this matter is resolved, an estimated JD 3.5 million ($7.1 million) will be underpaid to the special account based on the mutually binding terms of the Memorandum of Understanding.

Recommendation No. 5

We recommend that the Director, USAID/Jordan:

a. require the Government of Jordan to deposit in the special account sufficient funds to correct inaccuracies related to public sector component exchange rate requirements under the Commodity Import Program's Memorandum of Understanding; or

b. formally amend the Memorandum of Understanding by requiring that local currency deposits under the public sector component be converted based on the highest rate of exchange on the letter of credit date.

Discussion

In accordance with Section 6.6 of the Grant Agreement, a Memorandum of Understanding (MOU) between the Government of Jordan and USAID/Jordan was signed on April 3, 1986. It required, among other things, that local currency deposits into the special account be made "at the highest rate of exchange prevailing and declared for foreign exchange currency by the Central Bank on the day of deposit".

The Central Bank was responsible for the operations of the Commodity Import Program special accounts. Deposit and withdrawal instructions were received by the Central Bank from the Ministry of Planning via the Ministry of Finance. On receipt of the shipping documents, the Central Bank transferred local currency funds from the concerned Ministry's or Department's account to the Program's special account. The rate of exchange on the letter of credit date was used to convert the shipment dollar value into Jordanian Dinars even though the MOU required the rate of exchange on the day of deposit.

In responding to the draft report, Mission management stated that this occurred because the MOU did not reflect USAID/Jordan's or the host government's desires to use the letter of credit date. In drafting the MOU, the parties did not realize that it constituted a major change to earlier program documents such as implementation letter No. 1 on the exchange rate requirements.

There were time lags of up to 11 months between the letter of credit dates and deposit dates. This was significant because the value of the Jordanian currency was declining thus resulting in lower deposits into the special account if the letter of credit date was used rather than the date of deposit. For example, on April 30, 1989, the value of the Jordanian dinar was 60 percent of its October 1986 value.

The auditors performed an analysis to compare the local currency funds actually deposited into the special account from September 1986 to February 1989 with what should have been deposited using the rate of exchange at the date of deposit. The analysis demonstrated that JD 2.0 million (about $4.0 million) in local currency funds had been under-deposited as of February 1989 and that an additional JD 1.5 million ($3.1 million) for a total of JD 3.5 million ($7.1 million) will be under-paid to the special account based on the mutually binding terms of the MOU.

According to the two Regional Legal Advisors (RLAs) at USAID/Jordan and the Regional Economic Development Services Office, East and Southern Africa (REDSO/ESA), the exchange rate requirement of the MOU was legally binding and governed the conversion of public sector dollar value shipments into local currency. The Mission RLA who drafted the MOU stated that there was no mistake in the exchange rate language of the MOU. He stated that input was obtained from the General Counsel Office and that the exchange rate language of the MOU was commonly used in local currency generation agreements. The auditors found five CIP agreements in Kenya, Mozambique and Zimbabwe which required use of rates of exchange at the time of receiving the shipping documents or payment by the US Banks -- all of which were after letter of credit dates.

The REDSO/ESA RLA stated that if it was a question of which of the two documents (MOU or Implementation Letter No. 1) controlled, the MOU would govern because the Grant Agreement had given the MOU priority over the special account funds. However, according to this RLA, there was no conflict since implementation letter No. 1 only referred to a 10 percent down payment which was to be deposited on the letter of credit date. Accordingly, the letter of credit date for the 10 percent down payment was the date of deposit. This RLA concluded that USAID/Jordan should comply with the exchange rate requirement of the MOU.

In conclusion, this is a very confusing situation. On the one hand, the MOU is a mutually binding document and would normally take precedence over all other program documents. Further, it is not unreasonable to use the date of deposit requirement of the MOU since this date should be close to the actual shipping date. On the other hand, the Mission stated that the parties' intent was to use the letter of credit date. Since there was no standard special account exchange rate provision that has been uniformly applied in all of A.I.D.'s CIPs, the Mission needed to clear-up the confusion created by the conflicting signed documents and decide on which exchange rate provisions to use.

Management Comments

In commenting on the draft report, Mission management stated that the MOU exchange rate requirement did not reflect the desires of the Mission and the Government of Jordan. They pointed out that the MOU date-of-deposit provision contradicted the earlier program documents, such as Implementation Letter No. 1, which required the rate of exchange on the letter of credit date. The Mission concluded that, notwithstanding the confusion created by the MOU, both parties (the Mission and the Government of Jordan) intended to utilize the exchange rate in effect on the letter of credit date to calculate local currency amounts required to be deposited into the special account. They also suggested certain presentation revisions which were made.

Office of Inspector General Comments

The Memorandum of Understanding is a mutually binding document and its date-of-deposit exchange rate provision is not unreasonable. Although we have changed the report presentation to reflect the Mission's contention that both parties intended to use the rate of exchange on the letter of credit date, the Mission still needs to clear-up the confusion created by either requiring additional local currency deposits or amending the MOU. Recommendation No. 5 is considered unresolved.

B. Compliance and Internal Control

Compliance

As discussed in finding Nos. 1 and 5 of the report, local currency generations were not deposited in an interest bearing account, and the Government of Jordan did not comply with the exchange rate requirements for the public sector deposits. Further, finding No. 4 showed that financial reports were not submitted quarterly as required by the Grant Agreement. Also, as discussed in the other matters section, official records and reports submitted to USAID/Jordan by the Government and the importers were not always in English and the A.I.D. emblem was not always displayed on the CIP financed commodities. Audit work in compliance was limited to the five issues reported here.

Internal Control

Audit finding Nos. 5 and 3 showed that USAID/Jordan did not have adequate internal controls over the deposits to and withdrawals from the special accounts. Also, as discussed in finding No. 4, control over the expenditure of local currency generated funds was weak. Further, as discussed in the other matters section, control over the arrival and disposition of A.I.D. financed commodities was inadequate.

C. Other Pertinent Matters

A.I.D. regulations required either the host country or A.I.D. Mission to establish and maintain an adequate commodity arrival and disposition system. However, neither the Government of Jordan nor USAID/Jordan had developed systems comprehensive enough to adequately document the arrival and disposition of Program commodities. The Mission stated that it had 95 percent of shipping documents on file. Further, some commodities received quarterly inspections at the port of Aqaba by USAID/Jordan's Commodity Import Program and Controller personnel. However, such inspections did not provide for verification of commodities with the related documentation such as the out-turn reports, ship manifests and delivery reports. Further, the Mission only did limited end-use verification on a sampling basis with a focus on high dollar value items. The Government of Jordan only sent out questionnaires to determine if commodities were received/utilized and no physical inspections were made. Although our inspection of $28.5 million worth of Program commodities did not show any commodities which were not received or properly utilized, from a vulnerability standpoint, collusion could result in the diversion of CIP commodities worth millions of dollars. Therefore, we suggested that the Mission establish a more comprehensive commodity arrival and disposition system that involves (1) verifying the receipt of commodities through the use of out-turn reports, ship-manifests delivery reports and container numbers; and (2) expanding the number of end-use checks to include low and medium value transactions.

Article 8.3 of the Grant Agreement called for notices, requests, documents and all other communications between the parties to be in English unless otherwise agreed in writing. However, official documents and reports were not always in English. For example, monthly bank statements for the special account were in Arabic. USAID/Jordan should require the host government and importers to translate from Arabic to English all Program records submitted to the Mission.

A.I.D. Regulation 1 Section 201.30 required Program financed commodities to have A.I.D. emblems. However, our inspection of 11 Public Sector commodities worth $10.5 million showed that 7 items worth $6.6 million had no emblems. USAID/Jordan should ensure that the emblem is prominently displayed on all Program commodities.

AUDIT OF
JORDAN COMMODITY IMPORT PROGRAM

PART III - APPENDICES

UNITED STATES GOVERNMENT

memorandum

DATE: October 2, 1989

REPLY TO ATTN OF: L.P.Reade, Director, USAID/Jordan

SUBJECT: Audit of Jordan Commodity Import Program

TO: Richard C. Thabet, RIG/A/NAIROBI

Attached please find USAID/Jordan's written comments on the draft report of subject Audit.

Clearances:

RLA:DLuten: (Comment C3a Draft)
CONT:DPratt (Draft)
D/DIR:TOliver ---TO---
Drafted: CIP:FDonovan

FD:lq

USAID/Jordan Comments on CIP Draft Audit Report: Comments are identified as Comments A1,A2 etc.

A. Executive Summary:

A1. Page (i) please insert after the second sentence what USAID considers to be a major missing link in the description of this program i.e. "Obligated U.S. Dollars were used to finance public and private sector imports from the U.S."

A2. Page (ii):

a. On the second paragraph please revise the first sentence to read something similar to the following:

"This Audit produced no findings regarding discrepancies related to U.S. Dollar disbursements; however, local currency funds were not generated to the maximum extent possible."

Inspector General's Note
U.S. Dollar disbursements were outside the scope of the audit.

b. In the next to the last sentence on this page and wherever else in this report references are made to local currency estimates, please revise the audit presentation of these monetary amounts to show them in Jordan Dinar with an approximate U.S. dollar value in parentheses.

c. In the same sentence, USAID believes the statement "correcting the six problems... would provide up to $27.8 million in additional future local currency generations" is a statement that (after reading the rest of the report) includes estimated generations from a future planned program, CIP II, that is not yet in existence. USAID believes that a better way to make this statement is to identify two amounts: The first would show an amount that applies to the CIP under audit; the second would project an amount estimated for a future CIP.

A3. USAID believes that without the above requested revisions the draft audit report portrays a picture that appears to indicate (unintentionally we are sure) problems regarding U.S. dollar disbursements. USAID believes it is important that the final audit report draw a clear line between U.S. dollar appropriated funds and local currency generations thereof. The problem in not making this distinction is that instead of communicating a general message that "yes, the dollars were well spent, but the Host Government owned local currency generations (equivalent to about $ X million) could have been greater", a message is communicated that says "X millions of dollars were underdeposited" which is not quite accurate.

A4. Page iii:

a. The entire first paragraph does not accurately present the issue in question. USAID believes this paragraph should be almost completely revised. Please see USAID's detailed explanation on this issue in comment C3a.

b. Again in this paragraph, whenever figures are cited they should be cited in Jordan Dinar with an equivalent in U.S. dollars shown in parentheses.

Inspector General's Note

This relates to Finding No. 5.

A5. Page iv:

a. Regarding the first paragraph's second sentence: Although USAID appreciates the approach of this audit that fine tuning procedures noted in the audited CIP will result in a better CIP in the future; however, occasionally, this report appears to cite dollar figures for recovery based on a CIP II which is not yet in existence. For example, does the $4.3 million in this paragraph refer only to the CIP under audit or does it include estimations based on CIP II expectations? If the latter is the case, such figures should not be admissible under this report unless clearly distinguished from figures related to funds under audit.

Inspector General's Note

This relates to Finding No. 1.

b. Second paragraph, second sentence: Implementing incentive provisions did not in our opinion "cost" the program $8.3 million. On the contrary, it is an arguable point that without these incentives there may have been significantly reduced local currency generations. Only in the latter part of the program (about August 88) did the economic environment in Jordan change to the extent that some of the incentives could have been reduced or eliminated. However, at that time only about $6 million remained available for private sector CIP financing. Thus thee $8.3 million figure cited in the report seems a little high. USAID does accept that yes, as the economy changes, incentives should be reviewed to determine whether they are still necessary, and that USAID could have sought with the GOJ to reduce incentive terms for the remaining $6 million available. However, to say with certainty, as the audit appears to do, how much more Jordanian dinar could have been generated without asking importers who participated (which to our knowledge the auditors did not do) whether they would have used the CIP under reduced incentives is difficult at best to determine. USAID believes some of our differences on this point are related to a misconception that the incentives were adopted only to stimulate knowledge about the program. Such was not the case. The incentives, particularly those related to the interest rate and exchange rate, were adopted to make U.S. goods a more attractive alternative to European goods, to offset the high costs of U.S. Flag shipping rates, and the increased paper work burden associated with AID documentation requirements.

Inspector General's Note

We have amended report presentation to reflect the period from August 1988 only when $6 million was available.

This is included in Finding No. 2 in the final report.

USAID accepts this recommendation and agrees wholeheartedly that this is the correct way to proceed. USAID's differences with the draft report are rather with the amount of certainty with which the statements and figures are presented.

A6. Page v: The Mission agrees that it should monitor transactions of the special account to ensure that the amounts deposited and disbursed comply with requirements of the program agreement and related implementating documents. We have performed such monitoring in the past and will continue to do so.

Inspector General's Note
This relates to Finding No. 3.

The recommendation amount for reimbursement appears to include the sum of the three figures mentioned (all of which should have been shown in local currency) which seems strange since two are called "less deposits" ($655,400 & $216,000) and one is called "more disbursement" ($131,677) and it would not seem logical to add the shortages and the excess amounts together. USAID believes the best way to handle these 3 cases is to deal with them separately because each concerns different circumstances. For example, the local currency equivalent of $655,400 is a straightforward case of a deposit not yet made because the documents needed to trigger the deposit did not arrive at the Central Bank. This is easily corrected. USAID will ensure documents are collected from the U.S. Department of the Interior and sent to the Central Bank and that the corresponding Jordan Dinar deposit is made. The JD 76,934 ($216,000) amount is the estimated difference between what was deposited in local currency and what was to be deposited according to USAID records for a particular transaction. USAID needs to determine with the GOJ the basis upon which the amount deposited was made, and if short, to request deposit of the shortfall. The JD 70,842 ($131,677) amount refers to an amount for which a Government of Jordan expenditure records show no expense of this amount whereas the Central Bank records show that this amount was withdrawn. In this case USAID should require the GOJ to verify that the amount withdrawn is expended for approved uses.

A7. Page vi:

a. In this first paragraph, the second sentence is exactly how USAID believes statements regarding local currency figures should be made, i.e. the figure is shown in Jordan Dinar and a Dollar figure shown in parenthesis. In the same paragraph however, in sentence No. 4, just the opposite occurs which distorts the facts. First, there is no reference to the fact that these funds are actually Host Government owned local currency proceeds which are jointly programmed by USAID and the Host Government; second, the statement "the Government of Jordan spent millions of dollars in program funds .... " is not correct. The funds spent by the GOJ were in Host Country owned local currency.

Inspector General's Note
This relates to Finding No. 4.

b. By constantly referring to these funds as Program Funds the report confuses what these funds actually are, as Program Funds is a definition more commonly given to AID U.S. Dollar funds. USAID agrees with this recommendation except for the reimbursement requirement. Please see comment C3e.

Page vi:

b. In second paragraph please change the beginning of the second sentence to read, "Although both USAID and the host government had end-use checking and arrival accounting procedures in use, neither etc..."

Inspector General's Note
This is now shown as "Other Matters"

A8. Page vii:

First sentence: although this sentence is technically correct, USAID believes it should either be reworded or balanced with another sentence that makes it clear that the auditors, after a lengthy stay in Jordan, including extensive and field visits did not find any cases of collusion, or diversion of commodities.

B. PART I - INTRODUCTION:

B1. Page 2:
In first paragraph USAID would prefer if a Jordanian Dinar figure was given and the $52 million shown in parentheses.

C. PART II - RESULTS OF AUDIT:

C1. Page 6:
In next to the last sentence and page 7 first sentence, same comments as B1 above.

C2. Page 7

a. USAID differs with audit identification of problem (1) and recommendation (1). See comment C3a for USAID's detailed comments.

b. In third paragraph first sentence same comment as in comment A7a.

Findings and Recommendations (pages 11-40):

C3a. Response to Finding and Recommendation No. 1

The Mission disagrees with the draft audit report's Recommendation No. 1 that the Memorandum of Understanding ("MOU") provision requiring local currency deposits to be calculated using the rate of exchange in effect on the date of deposit reflected the mutual agreement of the GOJ and the Mission and should be enforced against the GOJ. The Mission's position was previously set forth in detail (see Amman 06596) in response to the Report of Audit Findings dated May 25, 1989 (the "RAF"). In its response, the Mission pointed out that the MOU date-of-deposit provision contradicted every other program document (the PAAD, PIL No. 1 and the Central Bank of Jordan circular for the private sector) in which the issue of exchange rate for special account deposits was discussed. In PIL No. 1 dated October 29, 1985, the parties agreed that for both the public and private sector components of the CIP, the date for calculating local currency deposit to the special account for a particular transaction would be the date on which the letter of credit for that transaction was opened. Without mentioning this provision of PIL No. 1, the MOU dated April 13, 1986 was drafted to require that the exchange rate for special account deposits would be that in effect on the date of deposit.

Inspector General's Note

This is shown as Finding No. 5 in the final report. Most of the comments below (pp. 5-9) were addressed by a change in the report recommendation which allows an amendment to the Memorandum of Understanding.

The Mission acknowledges the general principle of legal interpretation that, absent any other relevant circumstances, a later-signed document takes priority over an earlier one with respect to an ambiguity. However, in the present situation, a review of all the circumstances reveals that the mere recitation of this principle is clearly inappropriate. Although it is reasonable to assume that the change effected by the MOU, because of its significance, would have been the subject of correspondence and discussions between the parties, there is no evidence which suggests that the parties ever considered the issue. Thus, it is unreasonable to conclude that the parties, by signing the MOU in the form drafted, were aware of the conflicting provision and intended to change their previous agreement. To the contrary, the other pertinent program documents, together with the parties' behavior, indicate that they understood their agreement to be that the letter-of-credit date would be utilized for the purpose of determining the amounts of local currency deposits to the special account.

The Mission's responses to several of the specific points made in the draft audit report follow.

The draft audit report only partially presents the previous Mission RLA's views on this issue. The RLA did advise the auditors that he had intentionally included the date-of-deposit provision in the MOU. However, the Mission understands that he later advised the auditors that he had done so without realizing that the MOU provision varied from other program documents. Further, the draft audit report fails to note that the Mission's response to the RAF includes the RLA's conclusion that the MOU provision was a drafting mistake, did not accurately reflect the parties' agreement, and thus should be amended.

<u>Inspector General's Note</u>
The Mission RLA did not advise the auditors that he had changed his opinion subsequent to the interview.

The Mission believes that the draft audit report's references to certain CIP agreements do not provide clear support for the auditors' recommendation. To

Deleted - relates to matter not included in final report

3V

Deleted - relates to matter not included in final report

While the Mission is not familiar with the provisions of the five CIP agreements mentioned in the draft audit report, the Mission does not believe that a standard special account exchange rate provision has been uniformly applied in all of AID's CIPs. For instance, the Mission has been advised that for public sector CIPs in Egypt, the exchange rate in effect on the letter of credit date is used to calculate the amount of local currency to be deposited into the special account. Further, the Mission is of the understanding that in Pakistan, for public sector CIP transactions no deposit of local currency into a special account is required. This is possible because FAA Section 609(a) only requires such special account deposits to the extent a CIP grant-financed transaction results in the accrual of sales proceeds to the host government. When government entities procure commodities for their own needs utilizing CIP financing, there is no "sale" which causes the accrual of local currency to the government and triggers the requirement of a special account under FAA Section 609(a).

The draft audit report refers to certain advice provided to the auditors by an RLA assigned to REDSO/ESA. When contacted by the Mission, the RLA stated that he had affirmed to the auditors the rule of interpretation that a later-signed document generally governs, and that he believed he was providing support to the opinion expressed by the Mission's RLA. However, he stated that he had not been provided a copy of the Mission's response to the RAF and that he was not aware that the Mission's RLA, upon reviewing all the circumstances, was of the opinion that the MOU provision was in error.

Inspector General's Note

We do not believe this information would have impacted on the REDSO/ESA RLA opinion.

Concerning the statement attributed to the REDSO RLA in the draft report to the effect that the MOU takes precedence over PIL No. 1 because the Grant Agreement gave the MOU "priority over the special account funds", the Mission points out that the Grant Agreement only states that the MOU would provide for the uses of special account funds, and nothing else. The Grant Agreement does not in any way purport to give the MOU priority over special account matters. Accordingly, PILs No. 1, 2,3, and 9 all dealt with various aspects of special account operations and procedures which were not covered in the MOU. Further, the Mission believes that the conclusion made in the draft audit report concerning the effect of Section VIII.B of PIL No. 1 is mistaken. Section VIIIB states as follows:

Inspector General's Note

This information conflicts with statements made by the REDSO/RLA

> For companies under the private sector procedure, deposits to the Special Account in local currency will be made in cash at a minimum of 10% at the time of the opening of the Letter of Credit and the remainder in accordance with deferred payment procedures. For public organizations, a minimum of 10% deposit will be made on the date the Letter of credit is opened and the remainder paid to the special account on the date the commodities clear customs in Jordan. The Grantee shall make such deposits at the highest rate of exchange prevailing on (sic) the date the Letter of Credit is opened and declared for foreign exchange currency by the Central Bank of the Hashemite Kingdom of Jordan.

34

This provision established the letter of credit date as the date for determining the rate of exchange to be used in calculating all local currency deposits, whether initial or subsequent, to the special account. The Mission believes that the interpretation included in the draft report distorts the meaning of this provision.

Inspector General's Note
The report recommends clarification of the exchange rate provisions to be used.

The Mission adheres to its response to the RAF with respect to this recommendation. Notwithstandir ; the confusion created by the MOU on this point, the circumstances, taken as a whole, confirm that both the Mission and the GOJ intended to utilize the exchange rate in effect on letter-of-credit date to calculate local currency amounts required to be deposited into the special account. That is the agreement as understood by both parties. Perhaps the Mission could have negotiated a later date which would have resulted in the deposit of additional local currencies to the special account. However, it did not and to use the inadvertent provision of the MOU to achieve this result would be inappropriate.

C3b. Response to Finding and Recommendation No. 2

USAID agrees with the finding except for use of the $4.3 million figure. First, as stated previously, USAID would prefer that figures cited be in the proper currency, i.e. a Jordan Dinar figure should be shown if the subject is Jordan Dinar interest on Jordan Dinar accounts. Second, and of more importance, is that the $4.3 million dollar figure apparently includes an amount that is estimated to be realized from CIP-II, a program not yet in existence. USAID believes whatever dollar figures are cited here should be restricted to the program that is undergoing audit. Unless this is done or the distinction made clear that some portion of the $4.3 million is not currently realizable, the impression is given that $4.3 million is somehow recoverable under the current program. Other language in this report tends to encourage this impression. For example in the Executive Summary on page ii, if the statement that "correcting the six problems .... would provide up to $27.8 million in additional future local currency generations" is based on an amount including an estimate from CIP II, a non-existent program, we have the same problem. One way of dealing with this problem would be to revise the last sentence of the finding on page 17 to read "If corrected, about X Jordan dinar (about $X) could be realized under the remaining program, and any CIP in the future would benefit accordingly in terms of increased local currency generations."

Inspector General's Note
This is shown as finding No. 1 in the final report. Report shows estimated savings under CIP II to demonstrate importance of recommendations. Distinctions between CIP I and II were made where practical and applicable.

USAID requests that this recommendation No. 2 be revised to apply to future CIP's (e.g. CIP II) as USAID has already agreed in past negotiations with the GOJ for the current CIP on a non-interest bearing accounts.

Again on pages 18, 19 and 20, USAID believes Jordan Dinar figures should be shown and on the top of page 20, USAID questions the admissibility of the $4.3 million figure if based on a non-existent program.

C3c. Response to Finding and Recommendation No. 3

Inspector General's Note
This is shown as Finding No. 2 in the final report.

(1) USAID believes the second sentence of the finding is inaccurately stated. The incentive provisions under the program did not "cost the program". Please see previous comment A5b.

(2) As for the last sentence of the finding, USAID again questions the admissibility of citing figures and implying their recovery is possible under a program (CIP II) that is not yet in existence.

(3) USAID wholeheartedly agrees with the recommendation.

(4) USAID would prefer that if references to CIP II are maintained (on pages 25 and 26), it should be made clear that the $3.6 million figure cited is not based on a currently existing program.

C3d. Response to Finding and Recommendation No. 4

Inspector General's Note
This is shown as finding No. 3 in the final report.

The Mission agrees that it should monitor transactions of the special account to ensure that the amounts deposited and disbursed comply with requirements of the program agreement and related implementating documents. We have performed such monitoring in the past and will continue to do so.

The recommendation amount for reimbursement appears to include the sum of the three figures mentioned (all of which should have been shown in local currency) which seems strange since two are called "less deposits" ($655,400 & $216,000) and one is called "more disbursement" ($131,677) and it would not seem logical to add the shortages and the excess amounts together. USAID believes the best way to handle these 3 cases is to deal with them separately because each concerns different circumstances. For example, the local currency equivalent of $655,400 is a straightforward case of a deposit not yet made because the documents needed to trigger the deposit did not arrive at the Central Bank. This is easily corrected.

USAID will ensure documents are collected from the U.S. Department of the Interior and sent to the Central Bank and that the corresponding Jordan Dinar deposit is made. The JD 76,934 ($216,000) amount is the estimated difference between what was deposited in local currency and what was to be deposited according to USAID records for a particular transaction. USAID needs to determine with the GOJ the basis upon which the amount deposited was made, and if short, to request deposit of the shortfall. The JD 70,842 ($131,677) amount refers to an amount for which a Government of Jordan expenditure records show no expense of this amount whereas the Central Bank records show that this amount was withdrawn. In this case USAID should require the GOJ to verify that the amount withdrawn is expended for approved uses.

C3e. Response to Finding and Recommendation No. 5

Inspector General's Note
This is shown as finding No. 4 in the final report.

(1) Regarding the finding on page 33, the first paragraph's last sentence is not quite accurate. See previous comment A7a. for explanation.

(2) Regarding this recommendation No. 5, USAID differs with recommendation subparagraph a. but agrees with subparagraph b.
(3) As to subparagraph a. USAID does not believe the purposes of FAA 609 (a) are served by requiring the Government of Jordan to reimburse the special account for the following reasons:

- The amount of total expenditures did not exceed the originally agreed total program amount.

- The over expenditures were for projects listed as approved for local currency finding.

- The overexpenditures were compensated by underexpenditures for other approved projects.

In summary, USAID believes recommendation 5 subparagraph a. should be revised to require the following:

(a) That USAID verify whether overexpenditures in individual budgets fell within acceptable definition of approved local currency uses, and if so to retroactively accept such expenditures as meeting the requirements of the FAA, and
(b) That USAID build into future agreements on local currency a procedure whereby the GOJ must clear with USAID any contemplated adjustments to agreed budget line item amounts.

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(4) Again on page 36, the last sentence of the first paragraph incorrectly states that the "Government of Jordan spent millions of dollars..." when in fact the currency spent was Host Country owned Jordan Dinar.

C3f. Comments on Finding and Recommendation No. 6.

Inspector General's Note
This is shown as "Other Pertinent Matters" in the final report.

(1) While USAID accepts this finding, it would prefer if a last sentence could be added to the effect that "It should be noted that no instances of diversion or collusion were discovered during the audit".

(2) Regarding the recommendation : USAID agrees wholeheartedly and has already found useful the advice given in this recommendation in a recent arrival accounting field visit.

(3) Regarding the Discussion section: USAID would prefer if a sentence could be added to clarify that in addition to physical checks which amounted to about $45 million worth of commodities, USAID had shipping documents on file for about 95% of all orders. USAID recalls that Auditors commented that the completeness of our transaction documents greatly facilitated their works. Granted, such documents are only evidence of shipment, not receipt. Nevertheless, USAID wishes to point out that USAID did have assurance that a high percent of orders were on tracks i.e. had been shipped. It is true however, in terms of verifications of receipts, USAID's spot checking visits of equipment of 29% of program value and the GOJ's questionnaire system were not adequately comprehensive.

C3g. Other Pertinent Matters

The second paragraph needs clarification. For example, AID Reg 1 requirements related to AID emblems does not apply to projects receiving CIP Host Country owned local currency funding. Reg 1 only applies to the U.S. dollar financed CIP equipment imported into Jordan. For local currency funded projects, AID emblems are only required if the project in question was originally financed by AID with U.S. dollar appropriated funds.

NO FURTHER COMMENTS

APPENDIX 2

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