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Regional Inspector General for Audit
Dakar

Audit of USAID/Guinea's Management of Host Country-Owned Local Currency

Audit Report No. 7-675-94-02
October 29, 1993

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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON DC 20523

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WEST AFRICA

October 29, 1993

MEMORANDUM

TO: Wilbur Thomas, Director, USAID/Guinea

FROM: Thomas B. Anklewich, RIG/A/Dakar

SUBJECT: Audit of USAID/Guinea's Management of Host Country-Owned Local Currency, Audit Report No. 7-675-94-02

Enclosed are five copies of the subject report. We have reviewed your comments in response to our draft report (CONAKRY 6277) and have taken them into consideration in preparing this report. Your comments are included in their entirety in Appendix II.

The report has two recommendations. Based on your comments, Recommendation No. 2 is closed upon report issuance. Recommendation No. 1 is unresolved pending an agreement between our offices on the necessary corrective actions.

Please notify our office of the Mission's progress towards implementing Recommendation No. 1 within 30 days, including documentation supporting any completed actions so that we may consider closure.

I greatly appreciate the cooperation and courtesies extended to the RIG/A/Dakar staff during the audit.

EXECUTIVE SUMMARY

Introduction

The Republic of Guinea is confronted with widespread illiteracy, high population growth and remains one of the world's least developed nations. To address these problems, A.I.D.'s strategy includes $51.2 million of project assistance and a three-year Public Law 480 Title III (P.L. 480) program. The $22.5 million equivalent of local currencies expected from the sale of P.L. 480 food commodities are host country-owned and jointly programmed with USAID/Guinea for specific development activities.

Recognizing the vulnerabilities inherent to host country-owned local currency programs, A.I.D. assigned its overseas missions more stringent accountability and oversight responsibilities in 1991. The Office of the Regional Inspector General for Audit in Dakar, Senegal audited USAID/Guinea's implementation of these revised responsibilities in its 1992 to 1994 P.L. 480 Title III program.

Results of Audit

The audit showed that USAID/Guinea followed A.I.D. policies and procedures in:

- assessing the host government's management capabilities and accountability environment.

- designing its multiyear 1992 to 1994 P.L. 480 Title III agreement.

- ensuring the host government's deposit of 1992 P.L. 480 local-currency generations, except that it did not assure the Government of Guinea (i) deposited the funds into an interest-bearing bank account or (ii) that it maintained necessary internal controls. This resulted in a loss of interest income totalling approximately $300,000 and left funds vulnerable to misuse without timely detection. Though these funds were not yet disbursed for development purposes at the time of our audit, USAID/Guinea had established a system which, if consistently implemented, should ensure that local currencies are disbursed as quickly as practicable in accordance with A.I.D. policy and supplemental guidance.

- ensuring that local currencies generated by the sale of P.L. 480 Title III commodities in fiscal year 1992 were programmed in accordance with A.I.D.

policy and supplemental guidance. It also established a system which should provide reasonable certainty that P.L. 480 local currencies are used for their intended purposes.

- establishing a system which, if implemented as planned, should make sure that the impact of the P.L. 480 local currency program will be evaluated in accordance with A.I.D. policy and supplemental guidance.

Audit Recommendations

The audit report makes two recommendations to USAID/Guinea for improving management of its P.L. 480 local currency program.

- USAID/Guinea must ensure that the Government of Guinea promptly transfers 1992 local currency generations totalling $6.7 million into an interest-bearing bank account, as required by A.I.D. procedures.

- USAID/Guinea must also strengthen internal controls over local currencies through improved reporting and oversight procedures.

Effective implementation of these recommendations will bring USAID/Guinea's management of its P.L. 480 local currency program into conformance with Agency policies and procedures.

Management Comments and Our Evaluation

In response to our draft report, USAID/Guinea submitted written comments which are included in their entirety as Appendix II. The Mission concurred fully with our findings in Recommendation Nos. 1 and 2 of our report and has provided a course of action to address or close each recommendation.

Regarding Recommendation No. 1, the Mission has received a proposal by the Government of Guinea (GOG) to invest the local currency generations in GOG treasury bonds, which USAID/Guinea believes would satisfy A.I.D. requirements for interest-bearing accounts. Although, theoretically this would result in interest payments on these local currencies, we have reservations as to whether or not this arrangement fulfills the intent of A.I.D. policies and procedures. Accordingly, this recommendation remains unresolved at report issuance.

USAID/Guinea's Project Implementation Letter (PIL) No. 7 addresses Recommendation No. 2 by establishing internal control procedures for the management of the suspense account used for local currency generations. In our opinion, the procedures established resolve all concerns in regard to this account. Recommendation No. 2 is closed upon report issuance.

Office of The Inspector General

Office of the Inspector General
October 29, 1993

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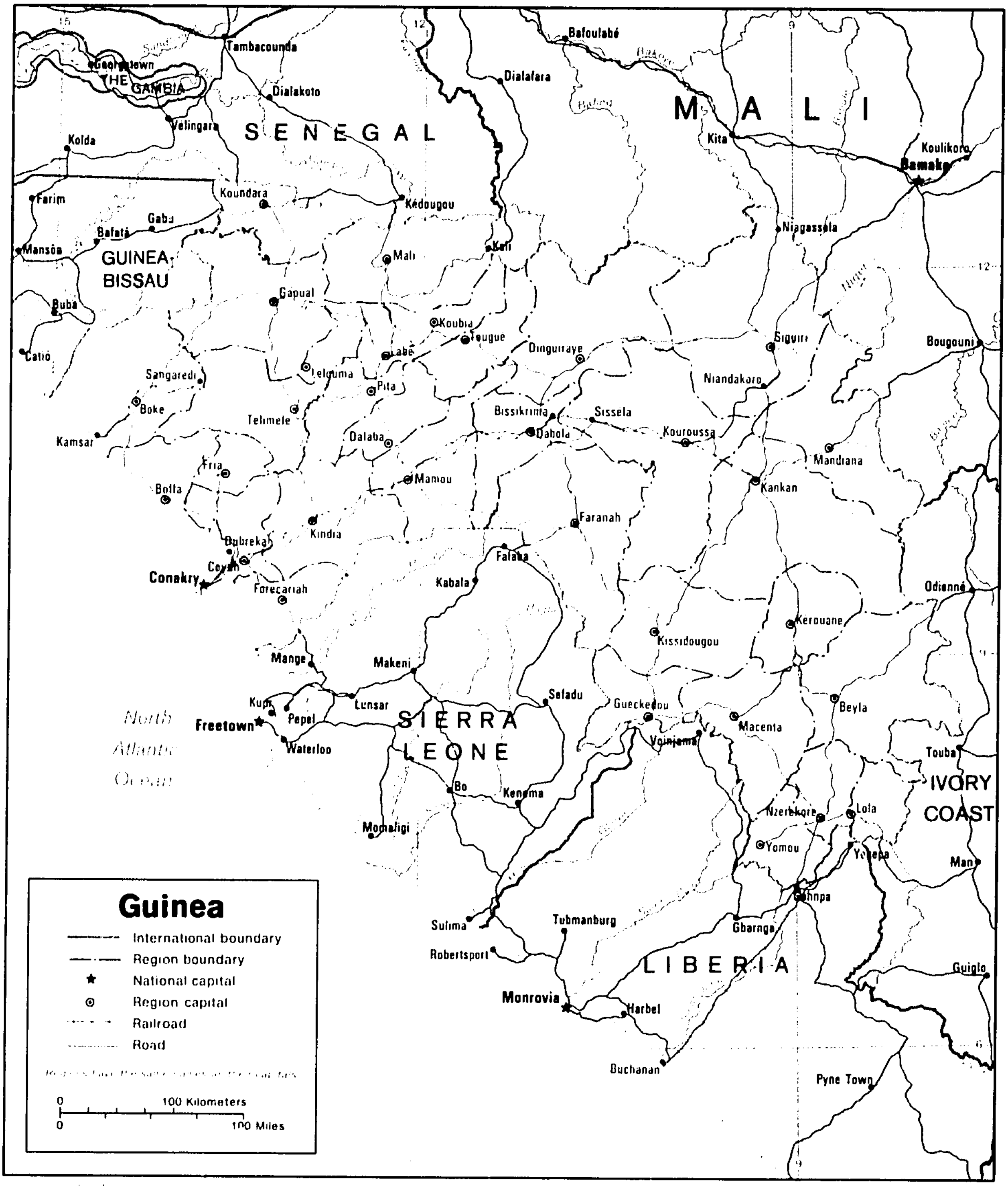

Guinea
International boundary
Region boundary
National capital
Region capital
Railroad
Road
100 Kilometers
100 Miles
SENEGAL
MALI
GUINEA-BISSAU
THE GAMBIA
SIERRA LEONE
LIBERIA
IVORY COAST
North Atlantic Ocean
Tambacounda
Dialakoto
Velingara
Kolda
Farim
Mansôa
Bafatá
Gabu
Buba
Catió
Koundara
Kédougou
Dialafara
Bafoulabé
Kita
Koulikoro
Bamako
Niagassola
Kali
Mali
Gapual
Koubia
Tougue
Labé
Lelouma
Pita
Dinguiraye
Siguiri
Niandakoro
Bougouni
Sangaredi
Boke
Kamsar
Telimele
Dalaba
Bissikrima
Dabola
Sissela
Kouroussa
Mandiana
Fria
Mamou
Kankan
Boffa
Kindia
Faranah
Dubreka
Coyah
Conakry
Forecariah
Falaba
Kabala
Odienné
Kerouane
Kissidougou
Mange
Makeni
Lunsar
Sefadu
Gueckedou
Macenta
Beyla
Freetown
Pepel
Waterloo
Voinjama
Touba
Bo
Kenema
Nzerekore
Lola
Moyamba
Yomou
Man
Sulima
Tubmanburg
Gbarnga
Robertsport
Monrovia
Harbel
Buchanan
Guiglo
Pyne Town

INTRODUCTION

Background

Despite its rich natural resources, the Republic of Guinea faces an 80 percent illiteracy rate, high population growth and remains one of the world's least developed nations. To address these problems, A.I.D.'s strategy has focused on improved agriculture, family planning and primary education.

Initiated in 1992, USAID/Guinea's three-year Public Law 480 Title III Food for Development (P.L. 480) Program will provide surplus U.S. food commodities (rice in FY 1992) to Guinea and is an integral part of the country development strategy. The sale of these commodities is expected to generate $22.5 million of local currencies over the life of the program. The P.L. 480 Title III Food for Development Program specifies that these local currencies will be owned by the Government of Guinea (GOG) and are to be jointly programmed with USAID/Guinea for specific development activities. See Appendices III and IV for a listing of the authorized and actual development activities financed by USAID/Guinea's Food for Development Program.

Recognizing the vulnerabilities inherent to host country-owned local currency programs, A.I.D. assigned its overseas missions more stringent accountability and oversight responsibilities in 1991. These responsibilities are enumerated in revised policies and implementing procedures as set forth in A.I.D.'s Policy Determination No. 18, dated July 30, 1991; State Cable 204855 entitled "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency," dated June 22, 1991; and State Cable 242313 entitled "Title III Program Guidance," dated July 24, 1991. USAID/Guinea is responsible for implementing these revised policies and procedures when generating, programming and managing the P.L. 480 Title III local currencies.

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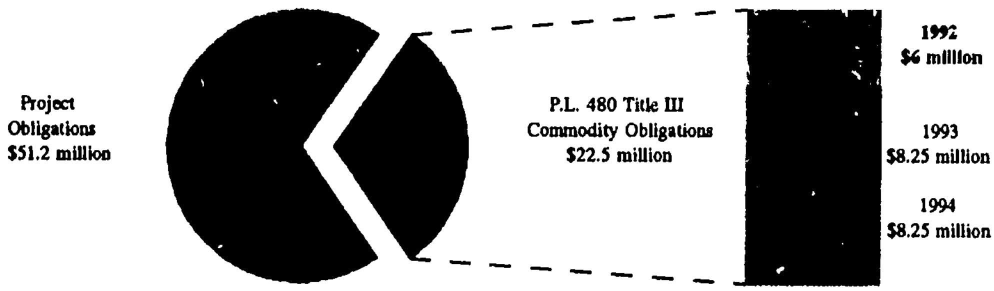
As shown below, USAID/Guinea's obligations for project assistance and P.L. 480 Title III food commodities totalled $51.2 million and $22.5 million, respectively, as of September 30, 1992.[1]



Total Obligations

Planned Local Currency Generations[2]

Audit Objectives

In accordance with its fiscal year 1993 audit plan, the Office of the Regional Inspector General in Dakar, Senegal audited USAID/Guinea's management of host country-owned local currencies generated under its three-year P.L. 480 Title III program to answer the following objectives.

Did USAID/Guinea:

- assess the accountability environment in the host country as required by A.I.D. policy and supplemental guidance?
- design the grant agreement in accordance with A.I.D. policy and supplemental guidance?
- ensure that local currency generations were deposited and quickly disbursed as required by A.I.D. policy and supplemental guidance?
- ensure that local currencies were programmed and used for the intended purposes as required by A.I.D. policy and supplemental guidance?
- ensure that the impact of the local currency programs will be evaluated in accordance with A.I.D. policy and supplemental guidance?

[1]Source: USAID/Guinea's unaudited PO6B Accounting Report as of September 30, 1992 and P.L. 480 Title III agreement for fiscal years 1992 to 1994.

[2]Actual fiscal year 1992 local currency generations total $6.7 million.

The audit was performed in coordination with other regional offices of the Inspector General as part of a worldwide assessment of A.I.D.'s management of host country-owned local currency programs.

Appendix I describes in detail the audit's scope and methodology.

REPORT OF AUDIT FINDINGS

Did USAID/Guinea assess the accountability environment in the host country as required by A.I.D. policy and supplemental guidance?

USAID/Guinea assessed the Government of Guinea's (GOG) accountability environment as required by A.I.D. policy and supplemental guidance.

Since 1983, A.I.D. Payment Verification Policy No. 1 has required overseas missions to formally assess the host governments' financial management systems. These assessments are to determine which program financing methods are most suitable to the local accountability environment. Section 2 of State Cable 204855 entitled "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency," dated June 22, 1991, requires that the assessments also cover the accountability for host country-owned local currencies generated under A.I.D. programs. Missions are to examine such factors as the host countries' (i) general financial management capabilities, (ii) quality of accounting and financial management personnel, (iii) systems in place to allocate and expend funds, (iv) external economic factors which might influence the use of local currencies, and (v) prior experience with ensuring accountability for A.I.D. resources and local currencies.

According to Section 5 of State Cable 204855, missions should conclude on the host countries' capability to manage special local currency accounts. If a mission finds that its host country has insufficient management capability, technical assistance may be provided to strengthen financial management and ensure accountability.

USAID/Guinea's most recent host country assessment was completed in 1991 and identified significant internal control weaknesses in the GOG's management of local currencies generated under the P.L. 480 program. Deficiencies included poor management, commingled accounts, and inaccurate financial reports.

Because of these problems, USAID/Guinea had suspended its 1990 P.L. 480 program, and in 1991 audited the local currencies and required the GOG to redeposit a local currency equivalent of $10 million into a separate bank account. An accounting firm was then contracted to temporarily administer the funds while effective GOG management procedures were established.

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USAID/Guinea also reinstated the P.L. 480 program in 1991 under the management of the same accounting firm. This firm was responsible for maintaining records on the sales of commodities, deposits and account balances of the separate account, and making disbursements totaling $2.4 million during 1992.

In November 1992, the GOG established an autonomous administrative unit, the Counterpart Fund Management System (CFMS), to program, monitor and account for the P.L. 480 local currency program. This GOG entity is supported by A.I.D. technical assistance and is comprised of an oversight board responsible for programming the funds and a technical unit which provides financial management, monitoring and reporting.

The above actions--assessment of GOG capabilities, identification of problems and implementation of corrective actions--are in accordance with the aforementioned A.I.D. policy and supplemental guidance.

Did USAID/Guinea design the grant agreement in accordance with A.I.D. policy and supplemental guidance?

USAID/Guinea designed its multiyear 1992 to 1994 P.L. 480 Title III agreement in accordance with A.I.D. policy and supplemental guidance.

P.L. 480 legislation established specific requirements for generating, programming and managing local currencies resulting from the sale of food commodities donated under the Title III program. A.I.D. Policy Determination No. 18 and supplemental guidance (State Cables 242313 and 204855), all issued in 1991, set forth applicable implementing procedures. These procedures cover the allowable conditions and methods for selling commodities; the permissible uses of sales proceeds; and the standards for accountability and oversight.

USAID/Guinea designed its multiyear P.L. 480 Title III agreement in accordance with the above policy and supplemental guidance. The agreement requires that (i) donated food commodities be sold at private-sector auction, (ii) sales proceeds be jointly programmed by USAID/Guinea and the GOG, (iii) funds be segregated, controlled and accounted for, and (iv) funded activities be adequately monitored, audited and evaluated. The agreement sets forth in detail how the above are to be accomplished, clearly defining roles and responsibilities of USAID/Guinea and the GOG.

The program agreement requires that commodity sales proceeds be deposited directly into a separate interest-bearing bank account as required by Policy Determination No. 18, State Cables 204855 (Section 5.1) and 242313 (Section VIII C). Thereafter, GOG's management system, the Counterpart Fund Management System (CFMS), is to formally program the funds with USAID/Guinea for rural road construction, natural resource management, agricultural marketing and investment; and a minimum of 10 percent of

the local currencies are to support indigenous non-governmental organizations. Such uses are consistent with A.I.D.'s development strategy for Guinea, as well as with Policy Determination No. 18 and Section 306(a) of the Agricultural Development and Trade Act of 1990.
The CFMS is also to administer the separate bank account; audit, monitor and evaluate the funded activities; and submit periodic financial and evaluation reports to USAID/Guinea in accordance with supplemental guidance contained in State Cables 242313 and 204855.

Furthermore, as required by the program agreement and guidelines in Section VII of State Cable 242313, USAID/Guinea plans an audit of the CFMS' first-year operations in late 1993 in order to ensure that the above systems are functioning as intended.

Did USAID/Guinea ensure that local currency generations were deposited and quickly disbursed as required by A.I.D. policy and supplemental guidance?

USAID/Guinea ensured that the 1992 P.L. 480 local currency generations were deposited as required by A.I.D. policy and supplemental guidance, except that it did not ensure that the Government of Guinea (i) deposited the funds into an interest-bearing bank account and (ii) maintained necessary internal controls. Though these funds were not yet disbursed at the time of our audit, USAID/Guinea had established a system which, if consistently implemented, should ensure that local currencies are disbursed as quickly as practicable in accordance with A.I.D. policy and supplemental guidance.

For accountability purposes, A.I.D. Policy Determination No. 18, dated July 30, 1991, requires that local currencies generated by the sale of P.L. 480 food commodities be deposited into a separate interest-bearing bank account. It further states that, if such an account is not established, a waiver must be obtained from the cognizant Assistant Administrator. Supplementary guidance (State Cables 242313 and 204855) also requires A.I.D. missions to ensure that funds are promptly deposited into the account, financial reports and bank statements are submitted to the mission, and periodic audits are conducted.

USAID/Guinea, through its participation in the design of the auction sales procedures, ensured that local currency generations from the sale of 1992 P.L. 480 food commodities were promptly deposited into a separate bank account. Purchasers of the commodities were required to make their payments directly to the Guinean Central Bank. These payments were then immediately deposited into the separate account reserved for FY 1992 P.L. 480 auction sales receipts. Since implementation of the Counterpart Fund Management System (CFMS) in November 1992, the Mission also obtained required quarterly financial reports and monthly statements of the separate

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account from the GOG and its participating bank.

Moreover, operating procedures of the CFMS, if consistently implemented, should ensure that funds are disbursed as quickly as accountability requirements and local conditions allow. These procedures include quarterly meetings of the oversight board. During the February 1993 meeting of this board, all $6.7 million in local currencies generated from 1992 P.L. 480 sales were programmed along with the $10 million redeposited by the GOG from prior years' P.L. 480 programs. These local currencies were programmed for specific development projects in a timely manner. In accordance with the A.I.D. guidance cited above, the CFMS also performs audit, evaluation and reporting of project progress and expenditures.

Disbursement of the 1992 sales proceeds had not begun as of June 1993. With the establishment of the CFMS, USAID/Guinea and the GOG anticipate rapid disbursement. As discussed under the first audit objective, USAID/Guinea suspended its prior P.L. 480 program because of the GOG's unsatisfactory management of local currencies. During the interim period prior to the establishment of the CFMS in 1992, the GOG was not allowed to directly manage or disburse the $10 million in P.L. 480 local currencies from prior years' programs. Disbursements of these funds will now be made to the programmed projects by the CFMS, the prior years' funds will be expended first, with expenditures of the 1992 sales proceeds starting after these funds are exhausted.

However, USAID/Guinea needs to improve its oversight of the P.L. 480 local currencies. As discussed below, the Mission did not ensure that funds were deposited into an interest-bearing account, nor did it obtain the required waiver of this requirement from the Assistant Administrator for the Africa Bureau. Also, it did not ensure proper controls over a bank account into which the CFMS transferred $2.2 million of earmarked local currencies.

USAID/Guinea Needs To Make Sure That The GOG Establishes An Interest-Bearing Account For P.L. 480 Local Currencies

A.I.D. policy and supplemental guidance require that local currencies generated by the sale of P.L. 480 commodities be deposited into an interest-bearing bank account. If this requirement cannot be met, a waiver must be obtained from the cognizant A.I.D. Assistant Administrator. USAID/Guinea did not ensure that the GOG deposited P.L. 480 local currencies into an interest-bearing bank account, nor did it obtain the required waiver. This occurred because the GOG was reluctant to transfer the funds from the Central Bank to a commercial bank where interest could be earned, and the Mission did not decisively resolve this noncompliance with the program agreement. As a result, A.I.D.'s local currency program in Guinea was deprived of over $300,000 in unrealized interest income.

<u>Recommendation No. 1</u>: We recommend that the Director, USAID/Guinea, ensure that the Government of Guinea deposit local currencies generated under the 1992 to 1994 Public Law 480 Title III agreement into interest-bearing bank accounts; or justify its decision not to deposit the funds into an interest-bearing account and obtain the required waiver from the Assistant Administrator for the Africa Bureau.

The Agricultural Development and Trade Act of 1990, Section 305(a), requires that local currencies generated from the sale of P.L. 480 Title III commodities "be deposited into a separate account (that may be interest bearing)." A.I.D. Policy Determination No. 18 contains applicable implementing guidance and requires that local currencies generated under food aid programs be deposited into a separate interest-bearing bank account or that a waiver be obtained from the cognizant Assistant Administrator (Assistant Administrator for the Africa Bureau).

However, USAID/Guinea did not affirm that the $6.7 million of local currencies generated by 1992 P.L. 480 sales were deposited into an interest-bearing bank account, nor did it obtain the required waiver from the Assistant Administrator for the Africa Bureau. Instead, the GOG held the funds in a separate noninterest-bearing account in the Guinean Central Bank.

This noncompliance with provisions of Policy Determination No. 18 occurred because the Mission did not take decisive action to enforce the P.L. 480 program agreement when confronted with GOG reluctance to transfer funds from its Central Bank.

Section 2.4 of the three-year P.L. 480 Title III agreement signed in June 1992 required that, unless otherwise agreed in writing, local-currency generations would be deposited into a separate interest-bearing account. Sections A-3.2 and A-1.5 of the agreement went on to explain that the separate account opened for P.L. 480 local currencies was noninterest-bearing in the Guinean Central Bank, but that the GOG would conduct a feasibility study and it was anticipated that the funds would be transferred to an interest-bearing account in a local commercial bank once the CFMS became operational.

The CFMS began operations in November 1992. However, the GOG stated in a brief letter to USAID/Guinea its preference for retaining the local currencies in its Central Bank, explaining that their transfer to a commercial bank would impair efforts to promote private-sector banking.

The letter did not, in our opinion, satisfactorily assess the feasibility of depositing the funds into an interest-bearing account. Nor was the Mission able to provide us with evidence of a substantive in-house analysis of the issue. Nevertheless, USAID/Guinea accepted the letter as the required "feasibility study," and P.L. 480 funds remained in

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the noninterest-bearing account in the Central Bank without the Assistant Administrator's required waiver.

... interest earnings of approximately $300,000 were not available for additional development activities in Guinea.

Since the Mission did not ensure that sales proceeds from the 1992 P.L. 480 program were deposited into an interest-bearing account, interest earnings of approximately $300,000 were not available for additional development activities in Guinea.

USAID/Guinea Needs To Strengthen Internal Controls Over P.L. 480 Local Currencies

A.I.D. Policy Determination No. 18 and State Cable 204855 both emphasize the importance of accountability for host country-owned local currencies generated under A.I.D. programs. However, USAID/Guinea did not ensure that the GOG maintained proper controls over one P.L. 480 bank account. This condition occurred because the CFMS Technical Unit did not report the establishment of an additional suspense account for the deposit of host country-owned local currency to USAID/Guinea management in a timely manner. In addition, the CFMS Technical Unit reported transfers to this suspense account as disbursements to projects, rather than account transfers, resulting in a $2.2 million understatement of deposits, an equivalent overstatement of disbursements and inaccurate U-205 local currency reporting by the Mission Controller.

> **Recommendation No. 2: We recommend that the Director, USAID/Guinea, amend the fiscal year 1992-94 Public Law 480 Title III Agreement to institute monitoring and reporting requirements equivalent to those for the separate account, for all accounts (specifically, the Counterpart Fund Management System's Public Law 480 local currency suspense account in the Central Bank) in which Public Law 480 generated local currencies are deposited prior to the receipt of these funds by approved programmed recipients.**

Recognizing the vulnerability inherent to host country-owned local currency programs, 1991 A.I.D. guidance requires increased monitoring and accountability for such funds. Procedures set forth in State Cable 204855 (Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency, dated June 22, 1991) and State Cable 242313 (Title III Program Guidance, dated July 24, 1991) require that local currencies generated under P.L. 480

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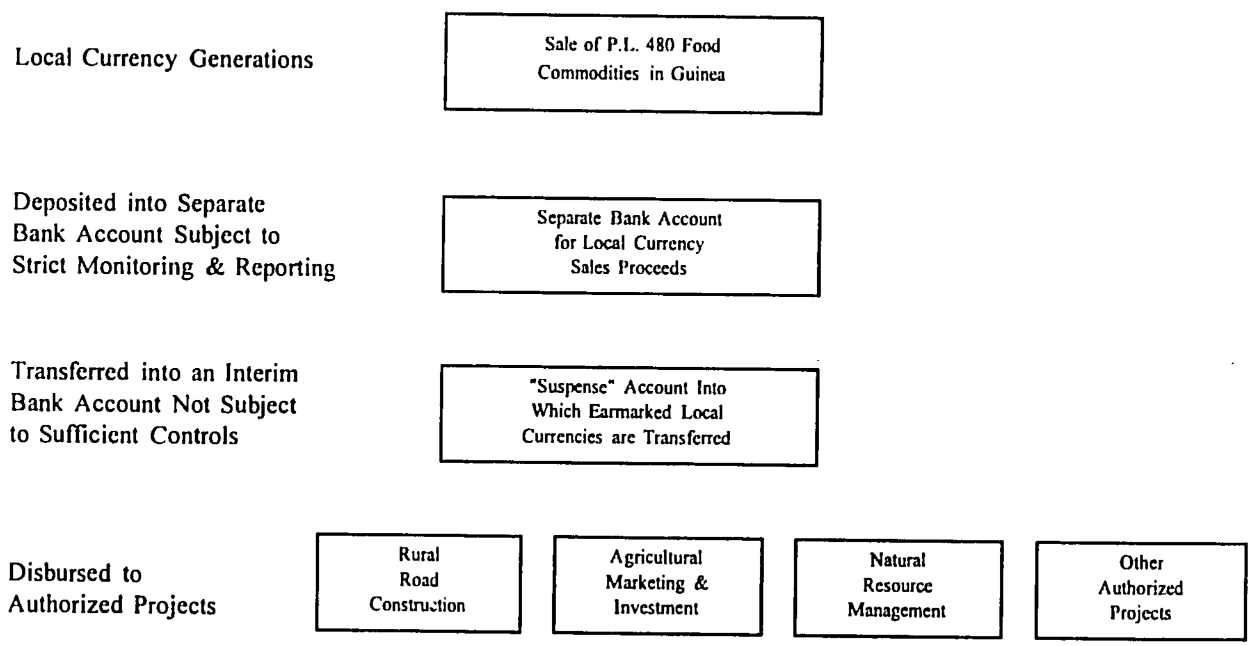
Title III programs be deposited into a separate bank account. Mission monitoring of the account is to include, at a minimum, quarterly status reports from the host government on deposits, withdrawals and disposition of the local currencies and monthly bank statements.

USAID/Guinea ensured that the GOG established a separate bank account for P.L. 480 Title III sales proceeds and the Mission designed effective reporting procedures. The host government agency administering those funds, the CFMS, subsequently opened a second bank account into which earmarked local currencies were transferred from the separate account and held until disbursed to the various projects. However, funds held in this "suspense account"--totalling the local currency equivalent of $2.2 million in June 1993--were not subject to sufficient A.I.D. monitoring. USAID/Guinea did not receive bank statements or reports of withdrawals from the account. The following diagram shows the flow of P.L. 480 local currencies.



CFMS operating procedures require that the Executive Director-CFMS and the GOG National Director of the Treasury co-sign all checks for disbursements from the separate account. CFMS officials state that under International Monetary Fund Guidelines, in periods when GOG expenditures exceed its revenues, the National Director of the Treasury is not allowed to release any GOG funds and as a result will not co-sign checks for disbursements from the separate account. The CFMS opened this second bank account to avoid the risk of GOG delays in disbursements from the separate account in these periods. Once full project approval has occurred, a transfer of one year's funding is transferred from the separate account to the suspense account. Thereafter, disbursements are made quarterly to the projects, facilitating a timely flow of funds.

While CFMS and USAID/Guinea officials provided the above programmatic rationale for establishing the suspense account, USAID/Guinea needs to promptly ensure that adequate monitoring and reporting controls, similar to those for the separate account, are established for any suspense accounts. These controls will not only reduce the vulnerability of the $2.2 million in the account, but also provide USAID/Guinea with better assurance that the funds are used for their programmed purposes.

Management Comments and Our Evaluation

USAID/Guinea stated that it concurred with Recommendation Nos. 1 and 2 and the Mission has already taken actions to resolve both recommendations.

In regard to Recommendation No. 1, we agreed that closure would occur upon receipt of evidence that the local currency generations from the sale of P.L. 480 commodities were deposited in an interest-bearing bank account, or that a waiver to this requirement be obtained from the Assistant Administrator-Africa Bureau. The Mission received a proposal by the Government of Guinea (GOG) to satisfy the interest-bearing account requirement through the investment of the local currency generations in Government of Guinea Treasury Bonds. USAID/Guinea believes that implementation of the Guinean proposal is a viable means of fulfilling this requirement.

In our opinion, it is questionable whether or not this proposed action would satisfy the intent of the requirement for interest-bearing accounts for local currency generations. The intent of the interest-bearing account requirement is to maintain the initial dollar exchange value of local currency accounts against inflation and currency devaluations. It is not clear that this proposed action meets this aim. It is uncertain whether or not Government of Guinea bonds are negotiable instruments--financially sound and freely tradeable. Unless the GOG agrees to pay these bonds on demand, with no penalty to the accrued interest, severe liquidity and solvency problems can occur for the counterpart funds. In our opinion, the deposit of these funds in an interest-bearing private bank account would be preferable.

Recommendation No. 1 remains unresolved pending the receipt of the following additional information concerning this proposed action: (1) the rating of the financial soundness of GOG bonds, (2) bond maturity lengths, for those to be purchased, (3) conditions of payment, (4) penalties for payment prior to maturity, and (5) conditions of payment if the bonds are called by the GOG.

Regarding Recommendation No. 2, we agreed that closure would occur upon issuance of a Project Implementation Letter (PIL) defining procedures for the management of the Counterpart Fund Management System's suspense account. This PIL was also to specify the USAID/Guinea role in the authorization process for the disbursal of funds from this account. PIL No. 7, dated September 24, 1993 satisfies all the requirements of this recommendation. Recommendation No. 2 is hereby closed upon report issuance.

Did USAID/Guinea ensure that local currencies were programmed and used for the intended purposes as required by A.I.D. policy and supplemental guidance?

USAID/Guinea validated that local currencies generated by the sale of P.L. 480 Title III commodities in fiscal year 1992 were programmed in accordance with A.I.D. policy and supplemental guidance. It also established a system which, if consistently implemented, should provide reasonable certainty that P.L. 480 local currencies are used for their intended purposes. Since these funds were not yet disbursed at the time of our audit, we limited our review to an assessment of the internal control system for ensuring that funds will be used for their intended purposes.

Section 301(a) of the Agricultural Development and Trade Act of 1990 states that proceeds from the sale of P.L. 480 Title III commodities may be used for economic development activities. Section 306 of the Act and A.I.D. Policy Determination No. 18 specify thirteen examples of how the funds may be used (see Appendix III) and require that at least 10 percent be allocated to indigenous non-governmental organizations.

Supplemental guidance contained in State Cable 204855 (Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency, dated June 22, 1991) describes the two principal uses of local currencies as budget support (which includes general budget support, general sector support and specific sector support) and extra-budgetary support (which includes specific development projects and activities). The supplemental guidance goes on to state that local currencies should be programmed for budget support only when A.I.D. has a high degree of confidence in the host government's financial and administrative capabilities. Additional supplemental guidance contained in State Cable 242313 (Title III Program Guidance, dated July 24, 1991) sets forth procedures for implementing the above requirements.

To ensure that local currencies are used as intended, Section 6 of State Cable 204855 also establishes monitoring, reporting and auditing requirements for funded projects.

USAID/Guinea complied with the above procedures. Together with the GOG, it jointly programmed 1992 sales proceeds of P.L. 480 Title III food commodities in accordance with Policy Determination No. 18 and State Cables 204855 and 242313. USAID/Guinea's 1990 General Assessment of the GOG cited six material problem areas: weaknesses in expenditure control, delays in local currency programming, unwillingness to implement new procedures, commingling of the local currencies of all donors, lack of transparency and weak managerial capacity. Because of these adverse findings, the Counterpart Fund Management System was established.

Although the CFMS provides a system of accountability for P.L. 480 local currency and the projects funded from these currencies, it does not resolve the weaknesses in the GOG cited in the assessment. A GOG Decree makes the CFMS an adjunct unit of the Guinean Government. However, this unit operates outside the Government and only in regards to the P.L. 480 Program. Thus, while providing a system of accountability which addresses the cited weaknesses in the Government specifically for these funds, the CFMS brings about no change in the operations of the Guinean Government at large.

In accordance with State Cable 204855 which specifies guidelines for countries with low financial and administrative capability, the entire $6.7 million in FY 1992 local currency was programmed for specific development projects. These projects--which include rural road construction, agricultural marketing and investment, and natural resource management--were consistent with the 13 authorized uses and meet the 10 percent minimum funding requirement for indigenous non-governmental organizations. Appendix IV provides a summary of these projects.

Programming is accomplished through the CFMS unit. CFMS procedures comprise three levels of review prior to authorizing local currency funding of a project. The CFMS oversight board reviews proposed projects to determine whether their objectives are consistent with the P.L. 480 program. Those clearing this first screen are forwarded to CFMS technical staff for assessment of the recipient organization's implementation and management capabilities. The oversight board then formally authorizes funding of those projects meeting the necessary standards.

The CFMS also monitors, audits and reports to USAID/Guinea and cognizant GOG officials on project implementation. Reports issued since the November 1992 inception of CFMS were substantive and provided reasonable assurance that implementation problems or misuse of funds would be detected. In addition, as required by the program agreement and guidelines in Section VII of State Cable 242313, USAID/Guinea plans an audit of the CFMS' first-year operations in late 1993 in order to ensure that the above systems are functioning as intended.

Did USAID/Guinea ensure that the impact of the local currency programs will be evaluated in accordance with A.I.D. policy and supplemental guidance?

USAID/Guinea established a system which, if consistently implemented, should ensure that the impact of the P.L. 480 local currency program will be evaluated in accordance with A.I.D. policy and supplemental guidance.

According to Section 7 of State Cable 204855 (Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency, dated June 22, 1991), missions are expected to develop, in collaboration with the host country, performance indicators to guide their programming of local currency by measuring the tangible results of the program. Section VII of State Cable 242313 (Title III Program Guidance, dated July 24, 1991) states that, if the local

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currencies are programmed for specific projects, the performance indicators will relate to the projects' outputs and accomplishments. Missions are then responsible for ensuring that these performance indicators are achieved.

USAID/Guinea's P.L. 480 Title III program includes a comprehensive evaluation system. As discussed under the previous objective, USAID/Guinea and the GOG jointly programmed the entire $6.7 million equivalent of local currencies generated in 1992 for specific development projects. Programming procedures include defining the specific project activities, results to be achieved from these activities and, as appropriate, interim project phases for disbursing incremental funding. CFMS personnel then routinely evaluate progress towards these objectives and report to both USAID/Guinea and cognizant GOG officials on the degree of progress. Evaluation reports to USAID/Guinea and cognizant GOG officials since inception of the CFMS in November 1992 showed substantive analysis of progress towards agreed-upon objectives.

Moreover, the P.L. 480 Title III program is scheduled for evaluation in early 1994. In addition, comprehensive evaluations of all A.I.D. projects currently allocated P.L. 480 local currencies are scheduled within the next two years.

The above actions, if implemented as planned, should ensure effective evaluation of USAID/Guinea's P.L. 480 Title III local currency program.

SCOPE AND METHODOLOGY

The Office of the Regional Inspector General for Audit in Dakar, Senegal audited USAID/Guinea's systems and procedures for planning, programming and monitoring local currencies generated under its fiscal year 1992-1994 P.L. 480 Title III program. The audit was conducted in accordance with generally accepted government audit standards and covered the $6.7 million equivalent of local currencies generated by the sale of 1992 P.L. 480 food shipments from the United States. Field work was performed from May 24 to June 18, 1993 in the offices of USAID/Guinea, Banque Centrale de Republique de Guinea, and the Counterpart Fund Management System in Conakry, Guinea.

The audit determined whether USAID/Guinea followed A.I.D. policies and procedures in (i) assessing the financial and administrative capabilities of the Guinean Government; (ii) designing its 1992 to 1994 P.L. 480 Title III agreement; (iii) ensuring that local currency generations were deposited and quickly disbursed; (iv) ensuring that local currencies were programmed and used for the intended purposes; and (v) ensuring evaluation of the local currency program. To accomplish this, we reviewed applicable policies and procedures contained in A.I.D. handbooks and supplemental guidance; obtained documentary and testimonial evidence from USAID/Guinea, host government and contractor personnel; analyzed the reliability and sufficiency of that evidence; and concluded whether or not USAID/Guinea followed the applicable policies and procedures. We also obtained written representations from USAID/Guinea management as to their complete disclosure of records and other information relevant to the audit objectives.

Specific methodology included reviewing the Mission's analysis and conclusions relating to the host government's management capabilities; analyzing the 1992 to 1994 P.L. 480 Title III agreement; assessing the design and implementation of local currency reporting and monitoring procedures; reconciling 1992 P.L. 480 local currency generations to deposits into the separate bank account; independently confirming with the bank the balance of that account; examining documents and procedures for USAID/Guinea's and the GOG's joint programming of local currencies; and assessing plans and procedures for evaluating impact of the local currency program.

ACTION: RIG INFO: AMB DCM

APPENDIX II

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FOR: RIG/A DAKAR, THOMAS ANKLEWICH
FROM: USAID/GUINEA, OFM/CONT, PETER KLOSKY

E.O. 12356: N/A
SUBJECT: DRAFT AUDIT REPORT OF USAID/GUINEA'S
- MANAGEMENT OF HOST COUNTRY-OWNED LOCAL
- CURRENCY.

REF: (A) DAKAR 09108 (B) DAKAR 09729 (C) DAKAR 010489 (D) CONAKRY 06114 (E) CONAKRY 05425 (F) DAKAR 10715.

1. IN CONNECTION WITH RECOMMENDATION NO.L OF SUBJECT DRAFT AUDIT REPORT, THE MISSION IS SENDING YOU, VIA DHL, A COPY OF A (SIGNED) LETTER FROM THE (GUINEA) NATIONAL DIRECTOR OF THE NATIONAL OFFICE OF PUBLIC INVESTMENTS TO THE PRESIDENT OF THE TECHNICAL SUPPORT UNIT FOR ECONOMIC AND FINANCIAL COORDINATION COMMITTEE. THE LETTER IS DATED 13 SEPT 1993, AND IS NUMBERED 993/MPF/CAB/DNIP/APF/1993. THE COPIES OF THE LETTER ARE IN BOTH ENGLISH AND FRENCH.

2. THIS LETTER QUOTE SUGGESTS UNQUOTE THE PURCHASE OF (GOG) TREASURY BONDS AS A METHOD OF SATISFYING USAID REQUIREMENTS FOR MAINTAINING AVAILABLE RELEVENT FUNDS IN INTEREST BEARING ACCOUNTS.

3. THE LETTER IS BEING SENT TO YOU TO REFLECT OUR POSITION THAT YOUR RECOMMENDATION IS CORRECT AND AGREED TO BY THE MISSION. WE BELIEVE WE ARE ON TRACK FOR RESOLUTION, AND WILL PURSUE THE ACTION OF ACTUAL PURCHASE OF INTEREST BEARING INSTRUMENTS, IN ORDER TO REACH CLOSURE ON THIS RECOMMENDATION.

4. MEETINGS ARE PLANNED DURING OCTOBER BETWEEN THE MISSION DIRECTOR AND GOG OFFICIALS IN ORDER TO FURTHER RESOLVE THE INVESTING (IN BONDS) TO BE ACCOMPLISHED. THE MISSION WILL INFORM YOUR OFFICE OF STEPS TAKEN AS SOON AS POSSIBLE.

5. IN CONNECTION WITH RECOMMENDATION NO. 2 OF THE SUBJECT AUDIT REPORT, THE MISSION IS SENDING YOU,

APPENDIX II

ALSO BY DHL, A COPY OF THE (SIGNED) PIL NO. 07 TO THE AGREEMENT GOVERNING THE RELEVANT PL480 ACTIVITY AND THE RELATED COUNTERPART FUND MANAGEMENT SYSTEM. THE PIL SPECIFIES PROCEDURES FOR APPROVALS, DISBURSEMENTS AND ACCOUNTABILITY IN CONNECTION WITH THE COUNTERPART FUNDS.

6. THE MISSION BELIEVES THAT THIS SIGNED PIL SATISFIES THE REQUIREMENTS OF RECOMMENDATION NO. 2, AND REQUESTS CLOSURE OF THIS RECOMMENDATION.

YOUR RESPONSE TO THIS CABLE, AND ANY ADDITIONAL INPUT FROM YOUR OFFICE, IS APPRECIATED.
REGARDS
SALOOM
BT
#6277

NNNN

APPENDIX III

Uses of P.L. 480 Title III Local-Currency Generations[1]

1. The promotion of specific policy reforms to improve food security and agricultural development within the country and to promote broad-based, equitable and sustainable development;

2. The establishment of development programs, projects, and activities that promote food security, alleviate hunger, improve nutrition, and promote family planning, maternal and child health care, oral rehydration therapy, and other child survival objectives;

3. The promotion of increased access to food supplies through the encouragement of specific policies and programs designed to increase employment and incomes within the country;

4. The promotion of free and open markets through specific policies and programs;

5. Support for United States private voluntary organizations and cooperatives and encouragement of the development and utilization of indigenous nongovernmental organizations;

6. The purchase of agricultural commodities (including transportation and processing costs) produced in the country to meet urgent or extraordinary relief requirements in the country or in neighboring countries; or to develop emergency food reserves;

7. The purchase of goods and services (other than agricultural commodities and related services) to meet urgent or extraordinary relief requirements;

8. The payment, to the extent practicable, of the costs of carrying out the program authorized in the Farmer-to-Farmer Program;

9. Private sector development activities designed to further the policies set forth in Section 2 of the Agricultural Development and Trade Act, including loans to financial intermediaries for use in making loans to private individuals, cooperatives, corporations, or other entities;

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[1]Illustrative uses set forth in Section 306(a) of the Agricultural Development and Trade Act of 1990 and in A.I.D. supplemental guidance contained in State Cable 242313 dated July 24, 1991.

10. Activities of the Peace Corps that relate to agricultural production;

11. The development of rural infrastructure such as roads, irrigation systems, and electrification to enhance agricultural production;

12. Research on malnutrition and its causes, as well as research relating to the identification and application of policies and strategies for targeting resources made available under this section to address the problem of malnutrition; and

13. Support for research (including collaborative research which is mutually beneficial to the United States and the recipient country), education, and extension activities in agricultural sciences.

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P.L. 480 Local Currency Programming in Guinea
February 1993[1]
(In U.S. Dollars)

1.	Natural Resources Management	$1,042,977
2.	Roads Construction and Rehabilitation	3,607,966
3.	Commercial Agricultural Investment	730,084
4.	Policy Reform Initiatives	2,529,455
5.	Educational Sector Initiatives	5,603,774
6.	Family Planning	209,644
7.	Rehabilitation of Ministry Building	209,644
8.	Rural Credit and Enterprise Initiatives	476,939
9.	P.L. 480 Technical Support	421,384
10.	1994 Continuing Projects	2,075,260
Total Programmed P.L. 480 Local Currencies		$16,907,126

[1]February 1993 programming authorizations included $10,182,114 (GNF 9,713,736,928) remaining under prior U.S. food aid programs and $6,725,012 (GNF 6,415,661,500) generated from the sale of 1992 P.L. 480 Title III commodities. As of June 1993, the official exchange rate was 954 Guinean Francs (GNF) to the U.S. Dollar.

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