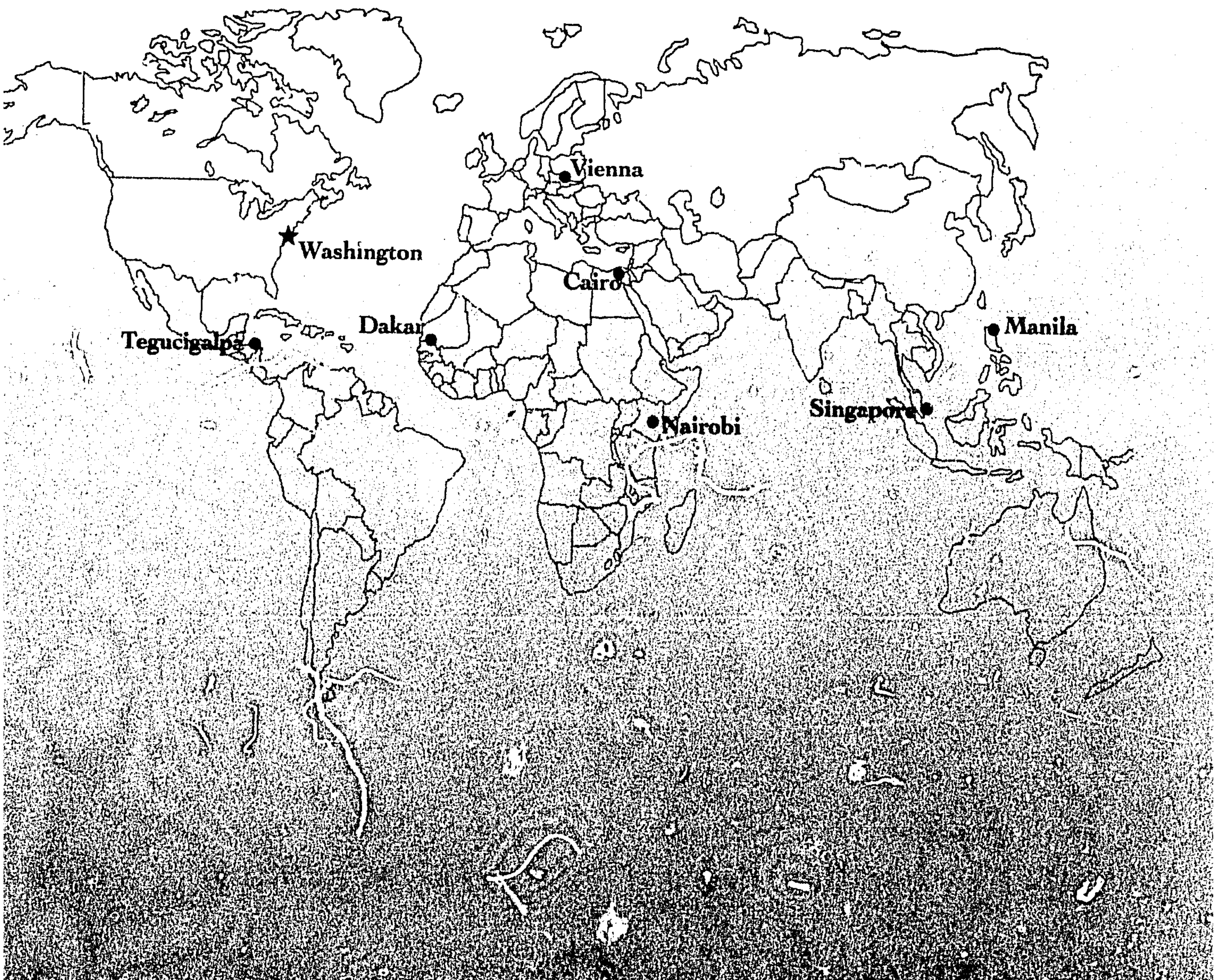
Regional Inspector General for Audit
San Jose, Costa Rica

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

Audit Report No. 1-511-94-003
January 31, 1994



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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OFFICE OF THE REGIONAL INSPECTOR GENERAL
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January 31, 1994

MEMORANDUM

TO: USAID/Bolivia Mission Director, Carl Leonard

FROM: RIG/A/San Jose, Coinage N. Gothard

SUBJECT: Audit of USAID/Bolivia's Management of Host Country-Owned Local Currency

This memorandum transmits our final audit report on USAID/Bolivia's management of host country-owned local currency. We have considered your comments on the draft report and have included them as Appendix II to this report.

Based on USAID/Bolivia's actions, Recommendation No. 1 is closed and No. 2 is resolved upon issuance of this report. Please respond within 30 days indicating any actions planned or taken to implement Recommendation No. 2.

I appreciate the cooperation and courtesies extended to my staff during this assignment.


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Regional Inspector General for Audit
San Jose, Costa Rica

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

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APPENDICES

EXECUTIVE SUMMARY

Introduction

In March 1992 USAID/Bolivia entered into an agreement with the Government of Bolivia (GOB) for Fiscal Years 1992-1994 under which the United States would, through the Public Law 480 Title III program, donate wheat valued at approximately $49 million. The agreement provided that the GOB sell the wheat and use the generated local currency to support the following activities: the Government of Bolivia's counterpart contribution to USAID/Bolivia-funded development projects (61 percent of generations); other development projects undertaken by the Government of Bolivia (32 percent of generations); and costs incurred by USAID/Bolivia and the Government of Bolivia to administer the P.L. 480 Title III program (7 percent of generations).

The audit focused on the Mission's management of the host country-owned local currency that was generated from the sale of wheat donated under the fiscal year 1992 P.L. 480 Title III program. As of June 30, 1993, wheat valued at $22.23 million had been delivered and sold to Bolivian private sector millers and $4.36 million of local currency generated from the sale of the wheat had been deposited for program purposes. We designed the audit objectives to answer whether USAID/Bolivia, managed the local currency generated under the 1992 P.L. 480 Title III program in compliance with USAID policies and procedures.,

See Appendix I for more details on the scope and methodology of this audit.

Results of Audit

The audit showed that USAID/Bolivia assessed the accountability of the environment in the host country as required by USAID policy and supplemental guidance and had performed an informal capability assessment of the GOB's P.L. 480 Executive Secretariat, the entity responsible for administering the local currency generated from the sale of the donated wheat. Also USAID/Bolivia designed the grant agreement and amendments for the 1992-1994 P.L. 480 Title III program in accordance with USAID policy and supplemental guidance. Notwithstanding the relative low level of disbursements for program activities as of our June 30, 1993 audit cut-off date, the USAID/Bolivia did ensure that local currency generations were deposited and quickly disbursed as required.

USAID/Bolivia, however, did not always ensure that:

- local currencies to be generated under its Fiscal Year 1992 Title III program were programmed as required by USAID policy and supplemental guidance but did, however, ensure that the local currency generations were used for intended purposes.

- the impact of the local currency program would be evaluated in accordance with USAID policy and the supplemental guidance.

Audit Recommendations

The report contains two recommendations to correct or improve the internal controls for the areas audited.

We have recommend that USAID/Bolivia,in coordination with the Government of Bolivia promptly program the $3.2 million in additional local currency that will become available under the program, for purposes consistent with its overall developmental strategy for Bolivia. Additionally, we recommended that USAID/Bolivia,amend the agreement for its Cochabamba Regional Development Project (No. 511-0617) to include specific performance indicators against which the performance of the project and, by implication, the effectiveness of the local currency impact may be measured.

Management Comments and Our Evaluation

The draft audit report was reviewed and commented upon by USAID/Bolivia's management and those comments were considered in preparing the final report. Management agreed with both of the report's recommendations and is in the process of taking appropriate corrective actions. USAID/Bolivia's comments are included as Appendix II to this report.

Office of the Inspector General.

Office of the Inspector General
January 31, 1994

INTRODUCTION

Background

On March 25, 1992 USAID/Bolivia entered into an agreement with the Government of Bolivia for Fiscal Years 1992-1994 under which the United States would, through the P.L. 480 Title III program, donate wheat valued at approximately $49 million ($19 million for 1992 and $15 million per year for 1993 and 1994). The donated wheat was to be sold by the Government to Bolivian grain millers in the open market thereby generating local currency which was to be deposited into a separate account and used to support the following activities: the Government of Bolivia's counterpart contribution to USAID/Bolivia-funded development projects (61 percent of generations); other development projects undertaken by the Government of Bolivia (32 percent of generations); and costs incurred by USAID/Bolivia and the Government of Bolivia to administer the P.L. 480 Title III program (7 percent of generations).

Recognizing the vulnerabilities inherent to host country-owned local currency programs, USAID 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 USAID'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 21, 1991); and State Cable 242313 entitled "Title III Program Guidance" (dated July 24, 1991). USAID/Bolivia is responsible for implementing these revised policies and procedures when generating, programming and managing the P.L. 480 Title III -generated local currencies.

The first shipment of commodities under the P.L. 480 Title III program (for fiscal years 1992 - 1994) was received in Bolivia in August 1992. As of June 30, 1993, the sales of the P.L. 480 Title III commodities and deposits into the special accounts amounted to $22.2 million and $4.4 million, respectively. As shown below, host country-owned local currency generated under the P.L. 480 Title III program in fiscal year 1992 represented approximately 34 percent of such currencies generated that year under USAID-funded programs.

Audit Objectives

In accordance with its fiscal year 1993 audit plan, the Office of the Regional Inspector General/San Jose audited USAID/Bolivia's Management of host country-owned local currencies generated under its three-year (fiscal years 1992 - 1994) P.L. 480 Title III program to answer the following objectives:

1. Did USAID/Bolivia assess the accountability environment in the host country as required by USAID policy and supplemental guidance?

2. Did USAID/Bolivia design the grant agreements and amendments in accordance with USAID policy and supplemental guidance?

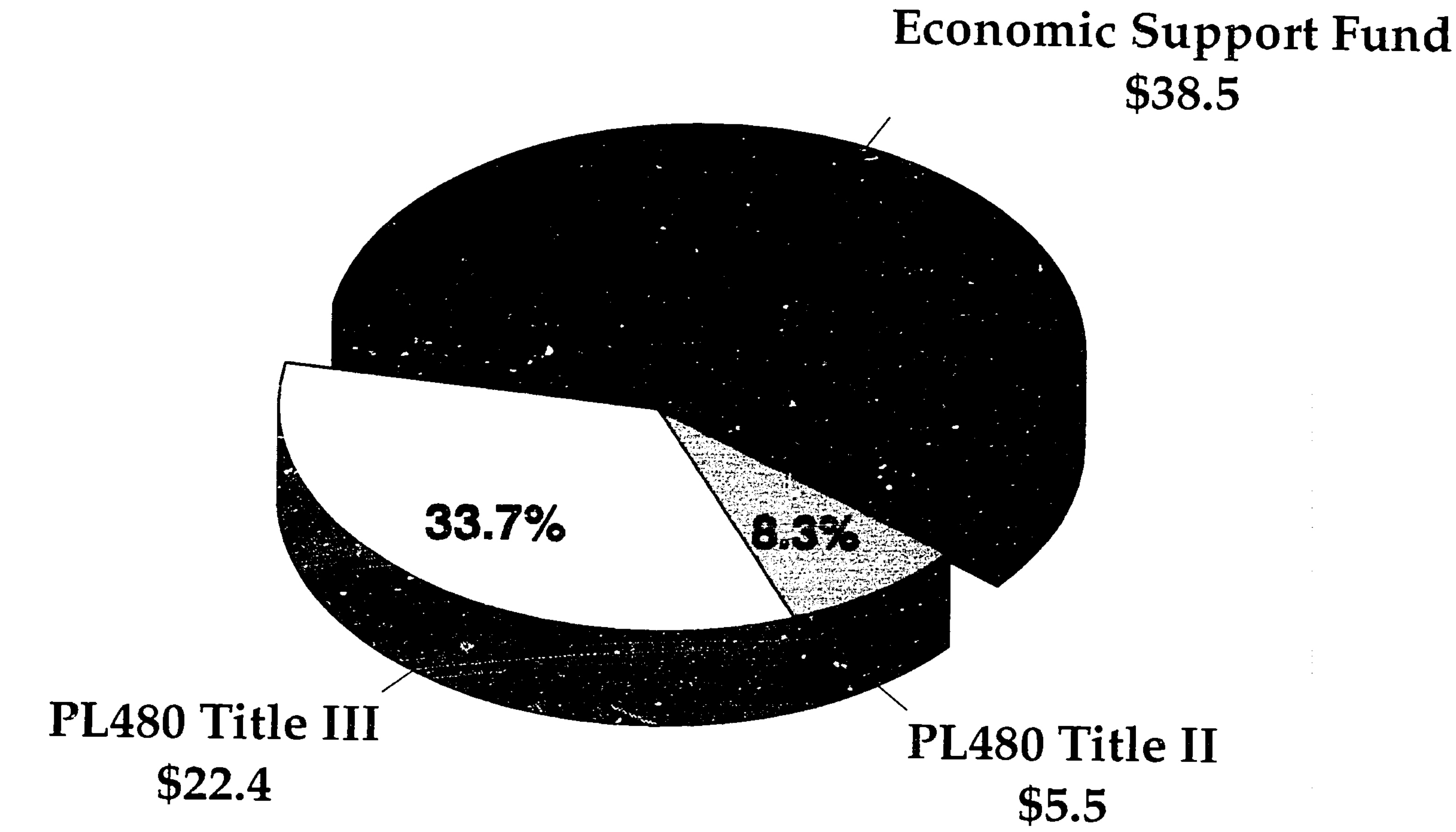
3. Did USAID/Bolivia ensure that local currency generations were deposited and quickly disbursed as required by USAID policy and supplemental guidance?

4. Did USAID/Bolivia ensure that local currencies were programmed and used for the intended purposes as required by USAID policy and supplemental guidance?

5. Did USAID/Bolivia ensure that the impact of the local currency program will be evaluated in accordance with USAID policy and supplemental guidance?

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

USAID/Bolivia Estimated Sources of Local Currency for Fiscal Year 1992



(Expressed in Millions of Dollars)

REPORT OF AUDIT FINDINGS

Did USAID/Bolivia Assess the Accountability Environment in the Host Country as Required by USAID Policy and Supplemental Guidance?

USAID/Bolivia assessed the accountability of the environment in the host country as required by USAID policy and supplemental guidance.

Section 2 of State Cable No. 204855 entitled "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency " (dated June 21, 1991) requires an assessment of the general accountability environment in the host country in order to ensure accountability for host country-owned local currency generated under USAID programs. The cable states that USAID missions should examine factors such as: (1) the general financial management capabilities of the host government, (2) the quality of accounting and financial management personnel with the host government, (3) the systems in place to allocate and expend funds, (4) the external factors which might influence the use of local currency, and (5) the mission's prior experience with ensuring accountability for USAID resources and local currency in that country. The cable further states that if the non-project assistance agreement requires that local currency be deposited to a separate account, the mission must identify the agency responsible for managing the account and "formally or informally", depending on the mission's previous experience with the agency, assess the agency's capability to manage the account.

Section VI of State Cable No. 242313 entitled "P.L. 480 Title III Guidelines" (dated July 1991) requires that in developing a P.L. 480 Title III program, missions should consider the institutional capacity of the implementing organization the recipient country to program and monitor the use of local currencies. The mission should also include in the P.L. 480 Title III program proposal a description and analysis of the private-sector and/or governmental organization that will carry out the program.

In accordance with State Cable No. 204855, USAID/Bolivia conducted a general assessment in April 1991 of the methods used by the Government of Bolivia account for host country-owned local currency generated under USAID programs. USAID/Bolivia concluded based on this assessment that it had a medium to high degree of confidence in most Government of Bolivia agencies responsible for budgeting and financial management systems associated with local currency generated under USAID-funded programs.

Also, in accordance with State Cable No. 242313, both the Fiscal Year 1992-1994 Program Proposal submitted on February 4, 1992 and the P.L. 480 Title III agreement signed on March 25, 1992, identified the P.L. 480 Executive Secretariat (the Secretariat) as the entity that would manage the local currency generated under the program. Although the Program Proposal stated that USAID/Bolivia had re-assessed the Secretariat's capability to manage the local currency generated under the program and found that it had sufficient capabilities to properly manage the local currency, USAID/Bolivia officials said the assessment was not a "formal" assessment, therefore, there is no documentation supporting that an assessment had in fact been performed. USAID/Bolivia stated that this assessment was based on its favorable experience with the Secretariat and the concurrent audits conducted by an independent auditing firm of the Secretariat's management of the local currency generated under the program. We reviewed the audit reports performed by the independent accounting firm and found that no material problems of the Secretariat's handling of local currency had been noted.[1]

Did USAID/Bolivia Design the Grant Agreement and Amendments in Accordance with USAID Policy and Supplemental Guidance?

USAID/Bolivia designed the grant agreement and amendments for the Fiscal Years 1992-1994 P.L. 480 Title III program in accordance with USAID policy and supplemental guidance.

Section VIII of State Cable 242313 ("P.L. 480 Title III Guidelines") requires that local currency resulting from the free market sale of the commodities be deposited into a separate interest-bearing account and cites examples of the allowable uses for the local currency. Also, State Cable 204855 ("Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency") requires the local currency be deposited into a separate interest-bearing account in a deposit-taking institution so long as such accounts are permitted under host-country law and that the account be audited periodically. This cable also states that the program agreement should contain specific language concerning audit responsibilities and frequency of audits and reserve for USAID the right to monitor and approve

[1] *The audit reports reviewed included the quarterly reports of the concurrent audit of the P.L. 480 Executive Secretariat for 1992 and the first quarter of 1993.*

the activities funded with local currency. Additionally, the cable requires that the entity managing the local currency account maintain books and records of the operations of the account and submit quarterly reports to USAID.

USAID/Bolivia included provisions in its agreement that required: (1) a separate local currency interest-bearing account be established, (2) the local currency receipts and disbursements be audited annually, (3) the local currency be used for specified purposes, and (4) the Government of Bolivia's P.L. 480 Executive Secretariat manage the local currency account, including maintaining books and records and submitting a quarterly report to USAID/Bolivia concerning the operations of the local currency account. Additionally, USAID/Bolivia provided in the program agreement that it would actively participate in the monitoring and evaluation of the program.

Did USAID/Bolivia Ensure That Local Currency Generations Were Deposited and Quickly Disbursed as Required by USAID Policy Supplemental Guidance?

USAID/Bolivia ensured that local currency generations were deposited and quickly disbursed as required by USAID policy and supplemental guidance.

State Cable 204855 "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency" (dated July 1991) states that "jointly programmed local currency should be disbursed as quickly as is consistent with sound programming and prevailing economic conditions in the recipient country." Additionally, USAID's "P.L. 480 Title III Guidelines" (dated June 1991) requires that the local currency resulting from the free market sale of the donated commodities be deposited into an a separate interest-bearing account promptly after title of the commodities passes to the host country purchaser.

The Government of Bolivia's P.L. 480 Executive Secretariat established separate bank accounts for the receipt of wheat sales proceeds. From these separate accounts, the Secretariat disbursed the sales proceeds quickly for acceptable uses and invested proceeds not immediately needed in interest-bearing financial instruments.[2] As of June 30, 1993, the Government of

[2] *We determined that the required separate account for the local currency was to be maintained at the State Bank but, following a November 1992 GOB decree that the State Bank close its financial operations, was subsequently established at a local private commercial bank. Because of GOB regulations, interest is not paid on this account the P.L. 480 Executive Secretariat, invests the local currency not immediately required for project needs into both interest-bearing financial instruments and a maintenance-of-value account.*

Bolivia (or the Bolivian purchasers of the commodities) had deposited into the separate accounts the entire $4.4 million in local currency equivalent which should have been deposited by that time and had disbursed $1.6 million in a timely manner.[3] The remaining $2.8 million had only been in the separate account for two months at the time of our review and we did not view this a an excessive period of time prior to being disbursed.

Consistent with USAID criteria on management of host country-owned local currency, USAID/Bolivia and the P.L. 480 Executive Secretariat (the Government of Bolivia's program implementing entity) established mechanisms to oversee the local currency generated and deposited under the program and to ensure that the local currency was disbursed for agreed-upon purposes. These mechanisms included maintaining close working relationships with USAID/Washington, the U.S. Department of Agriculture, and Bolivian private millers for managing the sale, transportation, and final disposition of U.S.-donated wheat in support of developmental objectives. Though not required by USAID criteria, entities receiving local currency also established separate accounts.

Although the $4.4 million of local currency generated under the program had as of the end of our audit period of June 30, 1992, been deposited into a separate account, deposits of approximately $599,000 were two weeks late. We believe that these isolated delays are immaterial for our audit purposes and therefore are not including a formal recommendation on this matter.

Did USAID/Bolivia Ensure That Local Currencies Were Programmed and Used for the Intended Purposes as Required by USAID Policy and Supplemental Guidance?

USAID/Bolivia ensured that local currencies were used for intended purposes as required by USAID policies and supplemental guidance. However, USAID/Bolivia did not always ensure that local currencies generated under its Fiscal Year 1992 Title III program were programmed as required.

Regarding the use of local currencies, Section 301(a) of the Food, Agricultural, Conversion, 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 USAID Policy

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[3] *The USAID guidance states the local currency should be disbursed "quickly" but does not define what timeframe is meant by "quickly". The $1.6 million in funds disbursed were disbursed within four months of being deposited.*

Determination No. 18 specify thirteen examples of how the funds may be used and require that at least 10 percent be allocated to indigenous non-governmental organizations. Supplemental guidance contained in State Cable 204855 entitled "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency" (dated June 21, 1991) describes the two principal uses of local currencies as budget support operations (which includes general budget support, general sector support and specific sector support) and extra-budgetary support (which includes specific development projects and activities). Our audit found that the entire $1.6 million in the P.L. 480 Title III -generated local currency which had been disbursed at the time of our audit (June 1993) was used for authorized and intended purposes: $1.4 million for community health and disease control activities and approximately $200,000 for a technical assistance contractor for services relating to infrastructure-development projects.

Regarding the programming of P.L. 480 Title III-generated local currency, USAID/Bolivia and the Government of Bolivia held preliminary discussions on the use of the currency during the program design stage. Once the program was approved, a P.L. 480 Joint Commission was formed which was composed of USAID/Bolivia and Government of Bolivia officials, including those from the Government's Ministries of Planning, Finance, Agriculture, Health, and Commerce and Industry, as well as the Executive Secretariat. By the time the proposal was finalized in February August 1992, a joint decision had been made as to which activities would be supported and how much local currency they will be allocated throughout the life of the program. The program agreement identified these activities, for which $17.7 million had been programmed, which are supportive of the USAID/Bolivia's overall developmental strategy for Bolivia, and is summarized under the caption "Illustrative Program Financial Plan". However, as discussed below, USAID/Bolivia had not ensured that additional local currency that will become available as a result of additional commodities being sold under the program, would be programmed as required.

Photographs inserted after page 8 represent activities for community health and disease control funded with $1.4 million in local currency generated under P.L. 480 Title III.

USAID/Bolivia Had Not Ensured that Additional Local Currency Generations <u>Were Timely Programmed as Required</u>

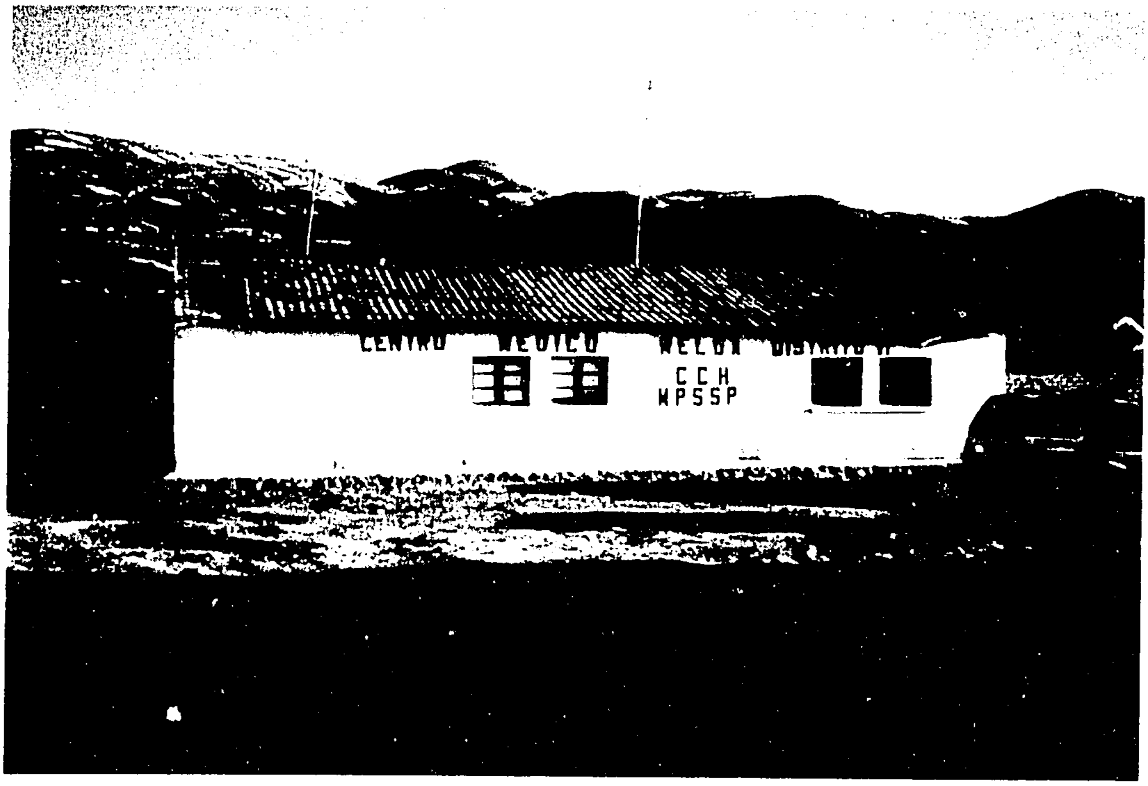
USAID policy prescribed that missions have preliminary agreement with the host country on local currency programmed at the program design stage. However, USAID/Bolivia and the Government of Bolivia had not programmed $3.2 million in additional local currency which will be become available as a result of additional commodities being sold under the program. This happened because USAID/Bolivia officials were not all in agreement on when the additional currency should be formally programmed. Delays in programming these currencies increases the vulnerability for ineffective planning of the use of these resources or in unnecessary delays in subsequent funding for developmental activities.

> <u>Recommendation No. 1</u>: We recommend that USAID/Bolivia, in coordination with the Government of Bolivia promptly program the $3.2 million in additional local currency that will become available under the program, for purposes consistent with its overall developmental strategy for Bolivia.

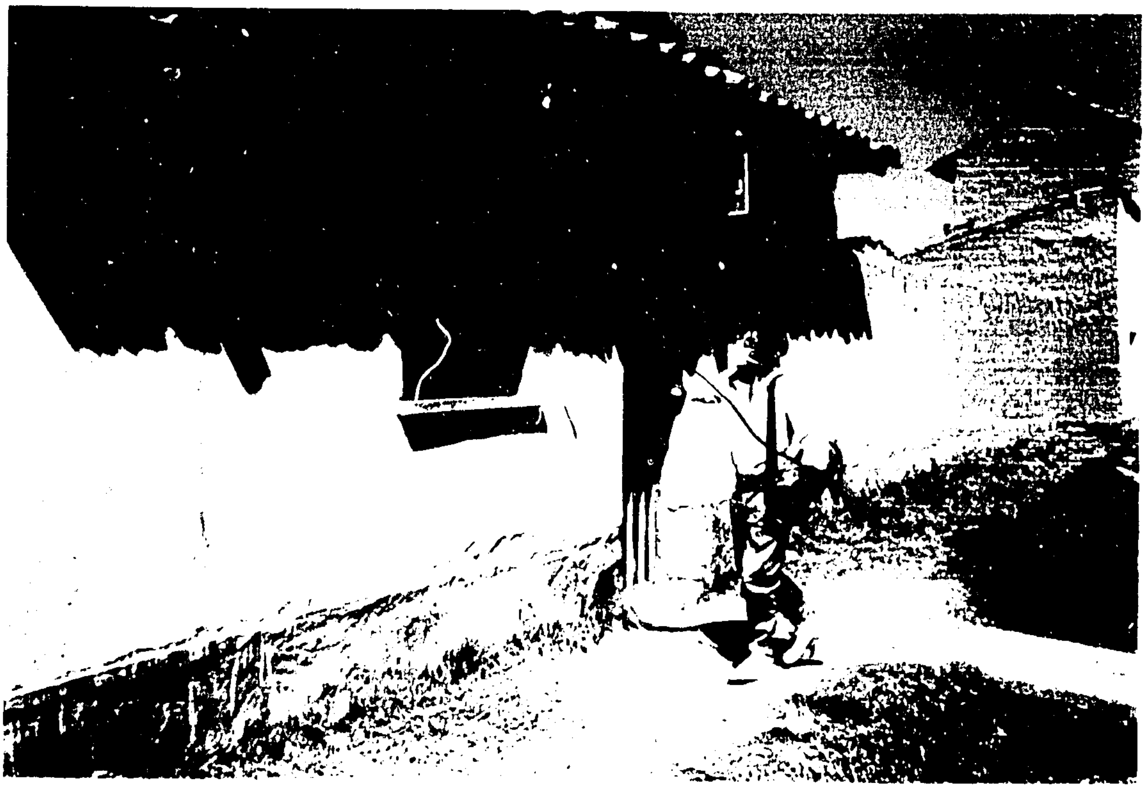
USAID's "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency" issued in June 1991 states that, ideally, missions would have preliminary agreement with the host country on local currency programming at the program design stage. Also, USAID's "P.L. 480 Title III Guidelines" states that all local currency generated under the P.L. 480 Title III program must be jointly programmed by the mission and the recipient government and utilized for the benefit of the host country.

Our audit found that USAID/Bolivia and the Government of Bolivia had not yet programmed $3.2 million in additional local currency that will become available under the program starting in March 1994. This additional local currency resulted from the sale to Bolivian millers of additional wheat procured with excess program dollars which were originally allocated to cover ocean freight differentials paid by USAID

Although USAID/Bolivia officials acknowledged the need to have these additional local currencies formally programmed, they were not all in agreement as to the required timing of the programming. For example, some officials believed that it was necessary only to program the local currency within one year of learning of the availability of additional local currency. In our opinion, failure to program available local currency on a timely basis may result in ineffective planning of the use of these resources or in unnecessary delays in subsequent fund allocations for developmental activities. Thus, USAID/Bolivia needs to take action now to program the use of the additional local currencies that will be generated under the program.



Medical Clinic Supported with PL 480 Title III Local Currency



Pest Control Supported with PL 480 Title III Local Currency

Management Comments and Our Evaluation

USAID/Bolivia concurred with Recommendation No. 1 and has issued a Project Implementation Letter by which it has programmed the additional $3.2 million of local currency generated under its 1992 P.L. 480 Title III Program.

Based on USAID/Bolivia's action, Recommendation No. 1 is closed.

Did USAID/Bolivia Ensure That the Impact of the Local Currency Program Will Be Evaluated in Accordance with USAID Policy and Supplemental Guidance?

USAID/Bolivia did not always ensure that the impact of the local currency program will be evaluated in accordance with USAID policy and the supplemental guidance.

USAID's "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency" issued in June 1991 states that, missions are expected to develop, in collaboration with the host country, specific performance indicators to guide their programming of local currency by measuring the progress in achieving program objectives. Additionally, Section VII of State Cable 242313 "P.L. 480 Title III Guidelines" states that if commodities contributed under the program are sold and the local currency proceeds are jointly programmed for specific projects or activities, the performance indicators will relate to the outputs and accomplishment of the projects or activities. Cable 204855 also states that the Program agreement or other subsequent agreements should identify specific performance indicators and discuss how these indicators will be measured or evaluated.

Under their Fiscal Year 1992-1994 P.L. 480 Title III agreement, USAID/Bolivia and the GOB jointly programmed the local currency resulting from the sale of the program's donated wheat to be the GOB's required counterpart contribution to four USAID/Bolivia projects and to support four GOB activities. As of June 1992 , local currency generated under the Fiscal Year 1992 P.L. 480 Title III program had been disbursed to two USAID/Bolivia projects, the Cochabamba Regional Development Project and the Community and Child Health Project. (See our finding for audit objective four for additional information on the programming of local currency generations.) USAID/Bolivia's P.L. 480 Title III Program agreement provides that annual external evaluations be performed of the program and two evaluations were performed in March and May of 1993. USAID/Bolivia included in the agreement for the Community and Child

Health Project, one of the two project agreements that received local currency under the program, performance indicators as required by USAID policy. USAID/Bolivia did not, however, as discussed below, include performance indicators in the agreement for the other project funded by the Fiscal Year 1992 P.L. 480 Title III program, the Cochabamba Regional Development Project.

USAID/Bolivia Did Not Ensure That Its
Cochabamba Regional Development Project
Agreement Included Performance Indicators

USAID policy prescribes that missions should develop performance indicators to measure the effectiveness of the use of local currency and include them in agreements with the host country. While USAID/Bolivia did include a general requirement for performance indicators in its Fiscal Year 1992 P.L. 480 Title III agreement, it did not include the required specific performance indicators in neither the Title III agreement nor in the Cochabamba Regional Development Project agreement. This omission occurred because USAID/Bolivia officials did not believe it was necessary to have the indicators in the project agreement. As a result of not including agreed-upon performance indicators in all agreements with the GOB, an effective evaluation of the activities supported with local currency cannot be performed and the effectiveness of the uses of local currency cannot be measured.

> Recommendation No. 2: We recommend that USAID/Bolivia, amend the agreement for its Cochabamba Regional Development Project (No. 511-0617) to include specific performance indicators against which the performance of the project and, by implication, the effectiveness of the local currency impact may be measured.

State Cable 204855 states that "...performance indicators for projects will likely be very specific..." and that "the program agreement or other subsequent agreements should identify specific performance indicators and discuss how these indicators will be measured or evaluated". As of our audit cutoff date, USAID/Bolivia had entered into project agreements for its two projects that had received local currency. The Community and Child Health Project agreement, as amended, did include performance indicators with which to evaluate its performance. This project was evaluated at its mid-term in January of 1992 before receiving the local currency and has not been evaluated since. On the other hand, the Cochabamba Regional Development Project agreement did not contain performance indicators and at the time of our cut-off date had not been evaluated in its entirety.

USAID/Bolivia did not include project performance indicators in the Cochabamba Regional Development Project agreement because project officials did not believe it was necessary. We believe, however, that as a result of not including agreed-upon performance indicators in bilateral agreements, an effective evaluation of the activities supported with local currency cannot be performed and the effectiveness of the use of the local currency will not be able to be independently determined. We are thus recommending that USAID/Bolivia amend its agreement for the Cochabamba Regional Development Project to include specific performance indicators.

Management Comments and Our Evaluation

USAID/Bolivia concurred with Recommendation No. 2 and has issued a Project Implementation Letter by which it has amended the agreement for the Cochabamba Regional Development Project adding specific performance indicators for the project.

Based on USAID/Bolivia's action Recommendation No. 2 is resolved and will be closed when the Project Implementation Letter is countersigned by the Government of Bolivia.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Bolivia's Management of Host Country-Owned Local Currency in accordance with generally accepted government auditing standards. We conducted the audit from June 17, 1993 to July 27, 1993 and did our field work at the offices of USAID/Bolivia and the Government of Bolivia's P.L. 480 Executive Secretariat. We limited our audit scope to USAID/Bolivia's 1992 P.L. 480 Title III program activities as of June 30, 1993. The Fiscal Years 1992-1994 Title III program agreement was the only Tile III agreement signed after Policy Determination No. 18 and State cables Nos. 204855 and 242313 entitled "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency," and "P.L. 480 Title III Guidelines" which became effective on July 1, 1991, July 1, 1991, and October 1, 1991, respectively. We did not include USAID/Bolivia's Fiscal Year 1993 Title III program in our audit because at the time of our audit fieldwork no commodities had been shipped under that program and related local currency had neither been generated nor programmed.

The audit covered the systems and procedures relating to (1) assessing the accountability environment in the host country, (2) designing of the grant agreement and amendments, (3) depositing and quick disbursing of local currency generations, (4) programming and use of local currencies for intended purposes, and (5) evaluating the impact of the local currency program.

According to USAID/Bolivia records it signed the Fiscal Years 1992-1994 P.L. 480 Title III agreement on March 25, 1992 and as of June 30, 1993, our audit cutoff date, wheat valued at $22.2 million had been delivered and sold to Bolivian millers. Approximately $4.4 million of local currency generated from the sale of the wheat had been deposited into a separate account and $1.6 million had been disbursed for program purposes. Our audit included a review of the internal controls over the deposit, disbursement and actual uses of this local currency. We considered audit findings from a previous audit performed by the Regional Inspector General that were related to the area which was being audited.

Methodology

In answering our audit objectives, we obtained documentary and testimonial evidence from the offices of USAID/Bolivia and the GOB's P.L. 480 Executive Secretariat and Ministry of Social Security and Public Health. We tested whether USAID/Bolivia followed applicable internal control procedures and complied with certain provisions of the Food, Agricultural, Conservation, and Trade Act of 1990. Our tests were sufficient to provide reasonable assurance in answering the audit objectives and reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. The methodology of all audit objectives involved: (1) obtaining and reviewing all relevant criteria contained in the Federal laws and USAID handbooks cable guidance, (2) interviewing cognizant officials to determine their policies and procedures for managing the area under audit and comparing them to the criteria obtained, (3) determining the universe for the area under audit and devising appropriate samples for testing, and (4) executing tests including reviewing files and agreements and performing follow-up as deemed appropriate.

UNITED STATES GOVERNMENT

memorandum

DATE: December 2, 1993

ARD-S-178/93

REPLY TO ATTN OF: Carl H. Leonard, D

SUBJECT: Response to Draft Audit Report

TO: Coinage Gothard, RIG USAID/San José, Costa Rica

Through:

USAID/Bolivia has reviewed the draft, "Audit of USAID/Bolivia's Management of Host Country-Owned Local Currency," received in USAID on November 4, 1993. Our comments and actions planned with regards to each of the audit findings are described below. Additionally, we have noted some textual clarifications.

The draft Audit Report contains two recommendations made to improve internal control for the five areas audited. The Mission generally agrees with the findings. In one case the Mission actually took corrective action before we received the draft audit report.

The following is a detailed discussion of the RIG's findings and recommendations.

Audit Objective No. 1

Did USAID/Bolivia assess the accountability of environment in the host country as required by AID policy and supplemental guidance?

Recommendations

None

Discussion

The RIG concluded that USAID/B assessed the accountability of the environment in the host country as required by AID policy and supplemental guidance.

Audit Objective No. 2

Did USAID/Bolivia design the Grant Agreement and Amendments in accordance with AID policy and supplemental guidance?

Recommendations

None.

Discussion

The RIG concluded that USAID/Bolivia designed the Grant Agreement for the FY 1992-1994 PL-480 Title III program in accordance with AID policy and supplemental guidance.

Audit Objective No. 3

Did USAID/Bolivia ensure that the local currency generations were deposited and quickly disbursed as required by AID policy and supplemental guidance?

Recommendations

None.

Discussion

The RIG verified compliance of GOB deposits into the special account. However, the RIG auditor observed a two weeks delay in depositing $2.2 million of local currency. On this point, we would like to clarify that there was a two-week delay in the deposit of only $599,158, not $2.2 million, of local currency. Please see attachment no. 1 from the Executive Secretariat, which lists deposits by the millers. This attachment also indicates that the millers deposited substantial amounts of money ahead of the due dates.

Audit Objective No. 4

Did USAID/Bolivia ensure that local currency generations were programmed and used for the intended purposes as required by AID policy and supplemental guidance?

Recommendation No. 1

USAID/Bolivia had not ensured that additional local currency generations were timely programmed as required. The auditors recommend that USAID/Bolivia, in coordination with the Government of Bolivia promptly program the $3.2 million in additional local currency that will become available under the program, for purposes consistent with its overall developmental strategy for Bolivia.

Discussion

We agree with the finding and the corresponding recommendation. As a result of discussions with RIG personnel during the audit in Bolivia, USAID took immediate action to program the amount in question by issuing the attached Project Implementation Letter No. 12 (see attachment no. 2). USAID/Bolivia requests closure of recommendation no. 1 upon issuance of the final report.

Audit Objective No. 5

Did USAID/Bolivia ensure that the impact of the local currency program will be evaluated in accordance with USAID policy and supplemental guidance?

Recommendation No. 2

USAID did not always ensure that the impact of the local currency program will be evaluated in accordance with AID policy and the supplemental guidance. The RIG auditors recommend that USAID amend the agreement for its Cochabamba Regional Development project (No. 511-0617) to include specific performance indicators against which the performance of the project and, by implication, the effectiveness of the local currency impact may be measured.

Discussion

In response to the recommendation, a Project Implementation Letter (PIL) has been prepared to amend the agreement for the Cochabamba Regional Development Project (Project No. 511-0617) to include specific performance indicators in order to measure the effectiveness of the local currency impact (please see attachment no. 3). USAID/Bolivia therefore requests that recommendation no. 2 be considered resolved upon issuance of the final audit report. Mission will request final closure by cable when PIL is countersigned by the GOB.

Other Comments

1. On page 10, bottom paragraph, there is a sentence that reads, "In our opinion, failure to program available local currency on a timely basis may result in ineffective planning of the use of these resources or in unnecessary delays in subsequent fund allocations for developmental activities." Mission wishes to point out that this was not the case in the Bolivia Title III program. Failure to program this money did not affect the disbursement of funds to development activities, because these monies had not yet been deposited into the Special Account, i.e., they were still in the process of being generated and were not available for developmental activities.

2. On page 11, bottom paragraph, the sentence reads, "USAID/Bolivia had planned to perform assessments during 1993 of the activities of the above two projects funded with local currency provided under the PL480 Title III program, but since the local currency was disbursed no evaluations or assessments have been performed." However, the Mission in fact performed two assessments, entitled, "Monitoring and Evaluation of Title III PL-480 Financed Counterpart Activities Carried Out under the Community and Child Health Project," dated May 12, 1993, by Anne Beasely; and, "Monitoring and Evaluation of Title III PL-480 Financed Counterpart Activities Carried out under the Chapare Regional Development Project," dated March 24, 1993, by Anne Beasely. The latter document covers the CORDEP project as well. Both are attached to this memorandum. Mission suggests that the phrase, "since local currency was disbursed no evaluations or assessments have been performed" cited above be deleted from text, and that the text be changed to read, "USAID/Bolivia planned and carried out assessments during 1993 of the activities of the above two projects funded with local currency...".

3. On page 12, second paragraph, a sentence reads, "USAID/Bolivia did not include the required performance indicators in neither the Fiscal Year 1992 PL 480 Title III agreement..." On the previous page, second paragraph, there is a reference to Cable 204855 which, "also states that the Program agreement or other subsequent agreements should identify specific performance indicators..." Mission wishes to note that in the 1992 Title III bilateral program agreement, on page 9, section 2.6, para (b), it says, "...each local currency agreement and each recipient agency agreement between the Cooperating Country and a government or other recipient agency...shall identify the specific tangible results or achievements anticipated from the program, project or activity for which local currency proceeds will be provided (hereinafter referred to as performance indicators)." A copy of the relevant page from the 1992 agreement is attached. Therefore, USAID suggests that a qualifying statement be included in the text on either page referred to above of the draft audit report, which says, "While USAID/Bolivia did in fact include a general requirement for performance indicators in the Program agreement..."

<u>Attachments</u>:

No. 1.	Tables showing Deposits into Special Account
No. 2.	PIL no. 12
No. 3.	Draft PIL (in process)
No. 4	L.C. Evaluations of CCH and Chapare/CORDEP Projects
No. 5.	Copy section 2.6, para (b) of 1992 Bilateral Agreement

FINANCIAL STATUS OF LOCAL CURRENCY GENERATED UNDER USAID/BOLIVIA'S FISCAL YEAR 1992 PUBLIC LAW 480 TITLE III PROGRAM AS OF JUNE 30, 1993 (Unaudited)

Strategic Objectives/Projects Description	Amount Programmed	Amount Obligated	Unobligated Balance	Amount Disbursed
ALTERNATIVE DEVELOPMENT				
USAID Projects				
Cochabamba Regional Development	8,000,000	5,266,248	2,733,752	202,946
Rural Household	500,000	0	500,000	0
Bolivian Projects	1,150,000	0	1,150,000	0
ENVIRONMENTAL/NATURAL RESOURCES				
USAID Projects				
Sustainable Forestry Management	1,500,000	0	1,500,000	0
Bolivian Projects	1,300,000	0	1,300,000	0
FOREIGN TRADE AND INVESTMENT				
Bolivian Projects	2,450,000	0	2,450,000	0
HEALTH				
USAID Projects				
Community And Child Health	1,600,000	2,370,297	(770,297)	1,434,623
Bolivian Projects	1,200,000	0	1,200,000	0
PROGRAM ADMINISTRATION	1,300,000	105,693	1,194,307	0
SUBTOTAL	$19,000,000	$7,742,238	$11,257,762	$1,637,569
Local Currency Not Yet Programmed	3,226,723	0	0	0
TOTAL	22,226,723	7,742,238	11,257,762	1,637,569

Note:
The exchange rate used to translate the local currency to U.S. dollars (4.0Bolivianos to 1 US dollar) is the approximate mean rate at which originally scheduled local currency deposits by program-participating wheat purchasers were converted in order to amortize their debt owed to the program.

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