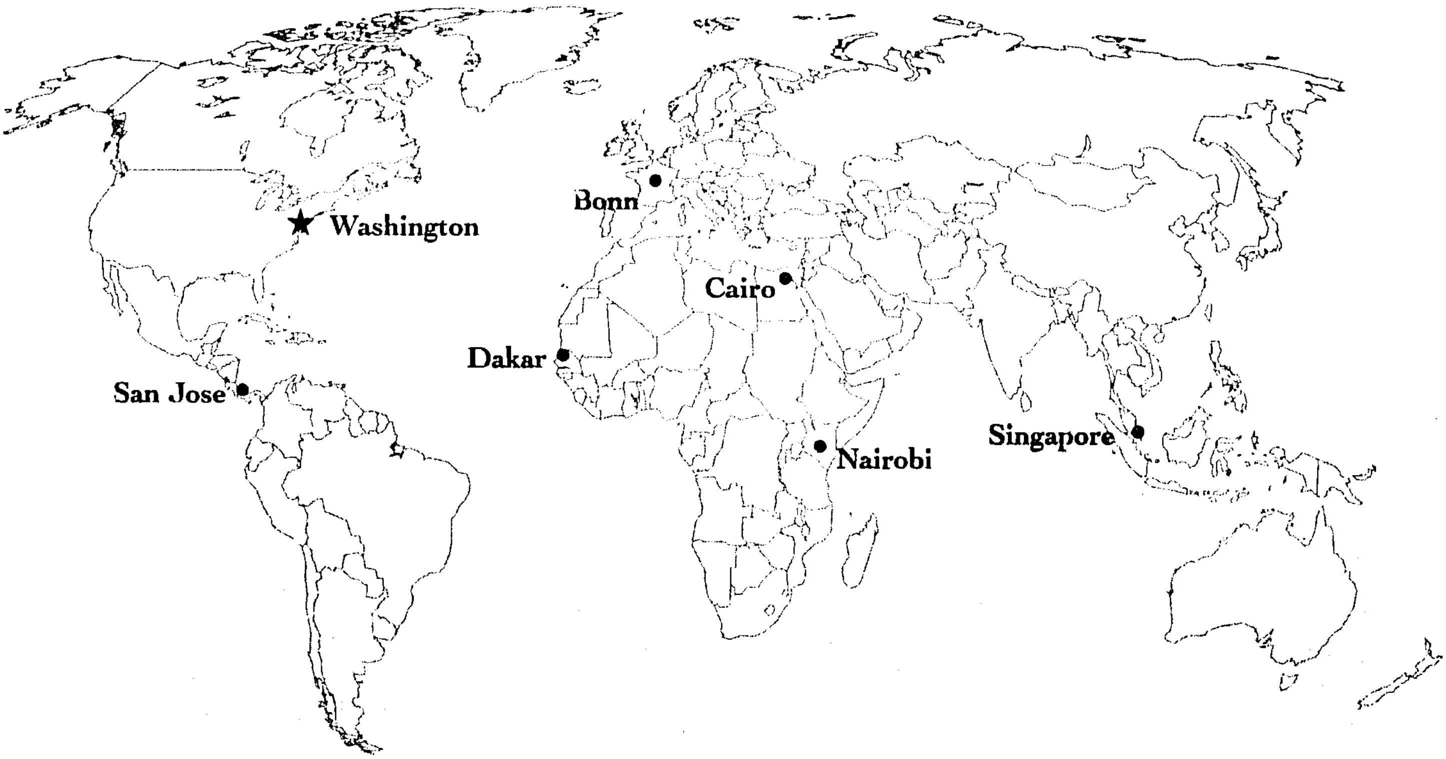
Regional Inspector General for Audit
Nairobi, Kenya

Audit of USAID/Uganda's Primary Education Reform Program

Report No. 3-617-95-013
July 14, 1995



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

July 14, 1995

*Regional
Inspector General
for Audit/Nairobi*

MEMORANDUM

TO: USAID/Uganda Director, Donald B. Clark

FROM: Acting RIG/A/Nairobi, John J. Burns John J. Burns

SUBJECT: Audit of USAID/Uganda's Primary Education Reform Program

Enclosed are three copies of the audit report on USAID/Uganda's Primary Education Reform Program, Report No. 3-617-95-013.

We were not able to fully answer the audit objectives because USAID/Uganda's management declined to provide us with all the information essential for us to render a professional conclusion. The scope limitations are discussed in more detail in the body of the report.

We reviewed your comments on the draft report and included them as Appendix II to this report. Based on actions taken by the Mission, Recommendation Nos. 1 and 3 are closed and Recommendation Nos. 2 and 4 are resolved. The resolved recommendations will be closed upon receipt of documentary evidence that appropriate actions are completed. Please respond to this report within 30 days indicating any actions planned to implement the recommendations.

Please accept my appreciation for the cooperation and courtesies extended to my staff during the audit.

P.O. BOX 30261, NAIROBI, KENYA. PHONE: (254)-2-211436, FAX: (254)-2-213551

EXECUTIVE SUMMARY

Background

Support for the Uganda Primary Education Reform Program (SUPER) began in August 1992. This ten-year program has a total life-of-project funding of $108 million–$83 million of which is non-project assistance and $25 million is project assistance. The goal of the program is to improve the quality of and reduce inequities in Uganda's primary education system. To do this, the Program will target its efforts to (1) improve students' mastery of reading, mathematics, and other basic skills; (2) improve school administration, management, and accountability; and (3) reduce differences in continued attendance among different groups of children.

In return for USAID funding of SUPER, the Government of Uganda (the Government) is expected to implement the following four policy reform objectives :

- Set and meet targets for improved terms and conditions of service for teachers (funding level–$40 million);

- Allocate resources to allow local level decision-making on school management for improving the quality and increasing the equity of primary education (funding level–$25 million);

- Allocate resources to provide primary schools with a sustainable supply of instructional materials for effective teaching (funding level–$18 million); and,

- Reform the teacher training system (project assistance funding level–$25 million). (See page 1.)

The first three policy reforms fall under the program component, while the fourth reform falls under project assistance. Non-project funds ($83 million) will be disbursed in six tranches–subject to the Government meeting specific conditions related to each of the three non-project assistance policy reform objectives. Non-project assistance funds will be used for four alternative balance-of-payments support purposes:

- Foreign exchange auction;
- Import of petroleum products;
- Government's multilateral debt service commitments; and
- Offshore purchase of textbooks and instructional materials.

Regarding counterpart contributions, the Government will deposit the equivalent of at least $17.5 million in local currency over the life of the program. The local currency will be jointly programmed by USAID/Uganda and the Government for use in the education sector and to meet the Mission's local support costs. The local currency equivalent of about $8.3 million, 10 percent of the NPA funding of $83 million, will be deposited in the Trust Fund account to support the Mission's local costs. This Trust Fund contribution will be part of the $ 17.5 million in local currency required from the Government (see page 2).

Audit Objectives

The Office of the Regional Inspector General for Audit, Nairobi audited USAID/Uganda's Primary Education Reform Program to answer the following audit objectives:

- Did USAID/Uganda ensure that program dollar funds were deposited into a separate, non-commingled, interest-bearing account and were disbursed for intended purposes (see page 4)?
- Did USAID/Uganda ensure that local currency was deposited into a special, interest-bearing account and was disbursed for intended purposes (see page 9)?
- Was the program on target in meeting its policy reform objectives (see page 13)?

Summary of Audit Findings

We were unable to fully answer the audit objectives because USAID/Uganda's management would not provide us with a written confirmation that, to best of their knowledge and belief: (1) All essential information was provided to us; (2) The information was accurate and complete; and (3) Management had followed USAID policies.

In view of the above, this report is limited because we cannot state positively that USAID/Uganda followed all USAID policies and procedures applicable to the audit objectives. However, USAID/Uganda's records showed the Mission had ensured that:

(a) Program dollar funds were deposited into a separate non-commingled, interest-bearing account (see page 4);

(b) Local currency contributions were deposited into separate, non-commingled accounts (see page 9); and

(c) The program was on target in meeting its policy reform objectives (see page 13).

Based on the information provided and the tests made, the following problem areas came to our attention:

USAID/Uganda Needs to Ensure
Dollars Are Properly Accounted For

USAID/Uganda had not fully ensured that dollar funds were properly accounted for by the Bank of Uganda (the Bank). The Mission relied on the Bank's management of the account and was unaware the Bank had not included a procedure in its system of tracking dollar transactions for SUPER to ensure all entries to the account were valid and properly approved. As a result, the Mission did not have reasonable assurance regarding the appropriateness of disbursements from the dollar account and the reasonableness of interest earnings credited to the account (see page 5).

Required Annual Audits
Needed to be Scheduled

USAID/Uganda had not ensured that audits of the dollar account and the local currency accounts for the Government's fiscal year 1994 were performed, and that the Government had scheduled audits for subsequent fiscal years. As a result, the Mission did not have a reasonable level of assurance on the proper operation of the dollar account and the local currency accounts which a financial audit would provide (see pages 7 and 12).

Local Currency was Deposited Into Non-interest Bearing Accounts.

USAID/Uganda did not ensure that local currencies for SUPER were deposited in interest-bearing accounts. As a result, the program lost about $6,385 in interest earnings (see page 10).

Summary of Recommendations

The report contains four recommendations to correct problem areas identified. First, the report recommends USAID/Uganda issue a Project Implementation Letter requiring the Bank of Uganda to establish and maintain a cashbook/ledger to track receipts and disbursements from the dollar account (see page 5) and, in coordination with the Bank, request Citibank, New York to credit the dollar account with approximately $3,644 in interest earnings for the month of December 1993 (see page 5). In addition, the report recommends USAID/Uganda, in conjunction with the host government implementing agency, schedule audits of the dollar account and the local currency accounts for the first fiscal year (the year ending June 30, 1994) and subsequent fiscal years (see pages 7 and 12) and require the Government of Uganda to deposit all local currency under the SUPER program into interest-bearing accounts (see page 10).

Management Comments and Our Evaluation

USAID/Uganda concurred with the findings and recommendations and had taken various actions to resolve and close the recommendations. Management comments, which can be found in their entirety as Appendix II, were considered in preparing the final report.

Office of the Inspector General

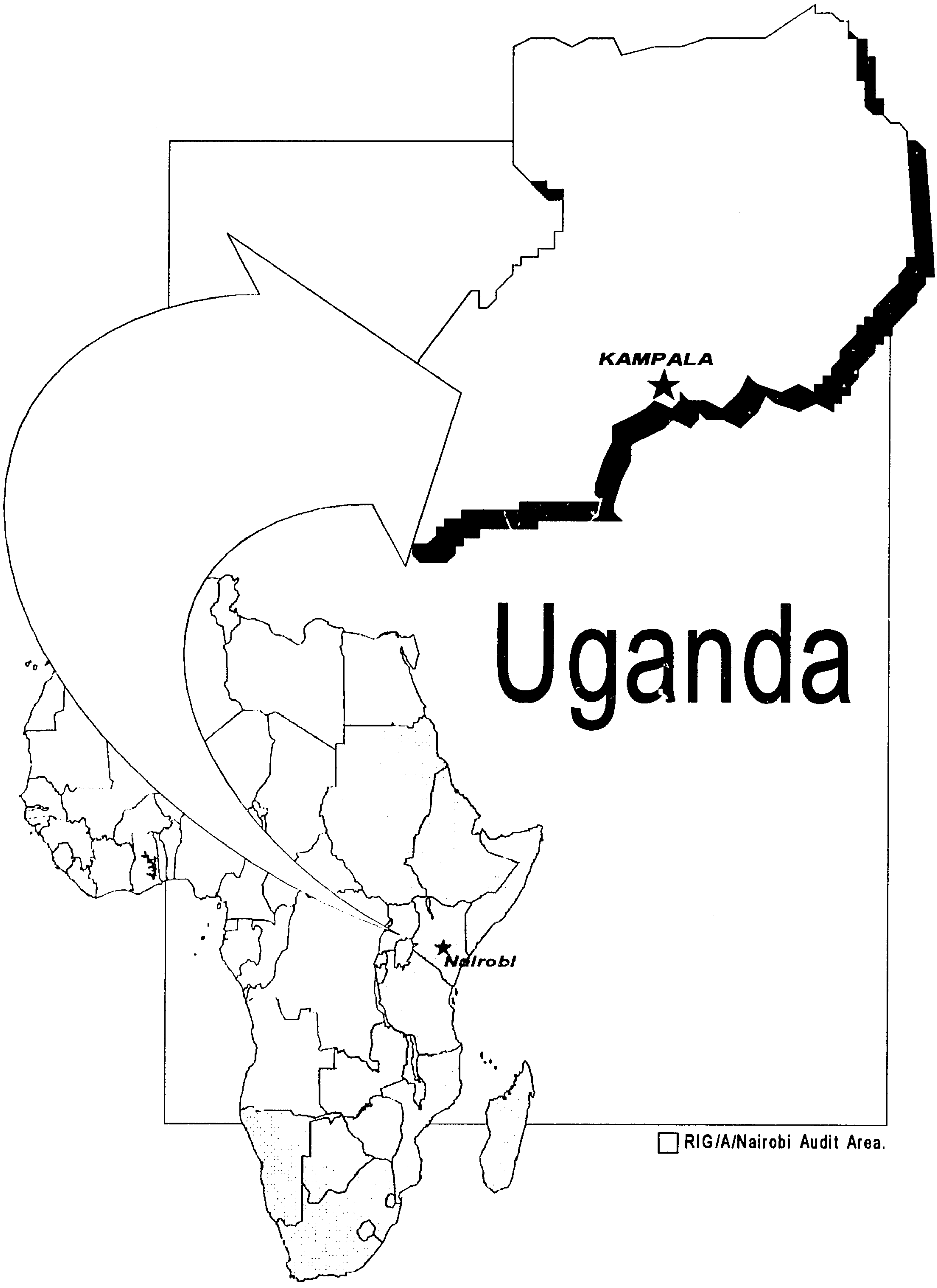
Office of the Inspector General
July 14, 1995

Table of Contents

	Page
EXECUTIVE SUMMARY	i
INTRODUCTION	1
Background	1
Audit Objectives	2
REPORT OF AUDIT FINDINGS	3
Did USAID/Uganda ensure that program dollar funds were deposited into a separate, non-commingled, interest-bearing account and were disbursed for intended purposes?	4
Dollar Funds Were Deposited Into a Separate Account	4
USAID/Uganda Needs to Ensure Dollars Are Properly Accounted For	5
Required Annual Audits Needed to be Scheduled	7
Did USAID/Uganda ensure that local currency was deposited into a special, interest-bearing accounts and was disbursed for intended purposes?	9
Local Currency Deposited Into Separate Accounts	9
Local Currency was Deposited in Non-interest Bearing Accounts	10
Required Annual Audits Needed to be Scheduled	12

	Page
Was the program on target in meeting its policy reform objectives?	13
Records Indicated Program Component was Meeting Policy Reform Objectives	13
Project Component has Just Been Implemented	15
MANAGEMENT COMMENTS AND OUR EVALUATION	17
APPENDICES	
Appendix I - Scope and Methodology	21
Appendix II - USAID/Uganda Management Response	25
Appendix III - Major Contributors to this Report	29

[THIS PAGE INTENTIONALLY LEFT BLANK.]


KAMPALA
Uganda
Nairobi
RIG/A/Nairobi Audit Area.

INTRODUCTION

Background

Support for the Uganda Primary Education Reform Program (SUPER) began in August 1992. The ten-year program has a total life-of-project funding of $108 million–$83 million of which is non-project assistance and $25 million is project assistance. The goal is to improve the quality of and reduce inequities in Uganda's primary education system. The quality of education was to be improved through policy changes which would result in more teachers spending more time at school teaching, more instructional material in the classrooms, and a better managed flow of resources to schools. The SUPER program would address the problem of inequities in the system through changes in the Government of Uganda's (the Government) budgetary allocations, as well as changes in its personnel management for the primary education sector. To do this, the Program will seek to: (1) improve students' mastery of reading, mathematics, and other basic skills; (2) improve school administration, management, and accountability; and (3) reduce differences in continued attendance among different groups of children.

In return for USAID-funding of SUPER, the Government is expected to implement the following four policy reform objectives:

- Set and meet targets for improved terms and conditions of service for teachers (funding level–$40 million);

- Allocate resources to allow local level decision making on school management for improving the quality and increasing the equity of primary education (funding level–$18 million);

- Allocate resources to provide primary schools with a sustainable supply of instructional materials for effective teaching (funding level–$25 million); and.

- Reform the teacher training system (project assistance funding level–$25 million).

The first three policy reforms fall under the program component, while the fourth reform falls under project assistance. Non-project funds ($83 million) will be disbursed in six tranches–subject to the Government meeting specific conditions related to each of the three non-project assistance policy reform objectives. Non-project assistance funds will be used for four alternative balance-of-payments-support purposes:

- Foreign exchange auction,
- Import of petroleum products,
- The Government's multilateral debt service commitments, and
- Offshore purchase of textbooks and instructional materials.

Regarding counterpart contributions, the Government will deposit the equivalent of at least $17.5 million in local currency over the life of the program. The local currency will be jointly programmed by USAID/Uganda and the Government for use in the education sector and to meet the Mission's local support costs. The local currency equivalent of about $8.3 million, 10 percent of the non-project assistance funding of $83 million, will be deposited in the Trust Fund account to support the Mission's local costs. This Trust Fund contribution will be part of the $ 17.5 million in local currency required from the Government.

Audit Objectives

The Office of the Regional Inspector General for Audit, Nairobi audited USAID/Uganda's Primary Education Reform Program to answer the following audit objectives:

- Did USAID/Uganda ensure that program dollar funds were deposited into a separate, non-commingled, interest-bearing account and were disbursed for intended purposes?

- Did USAID/Uganda ensure that local currency was deposited into a special, interest-bearing account and was disbursed for intended purposes?

- Was the program on target in meeting its policy reform objectives?

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

REPORT OF AUDIT FINDINGS

We are not able to fully answer our audit objectives because USAID/Uganda's management declined to provide us all the information essential for us to render a professional conclusion. For example, USAID/Uganda's management would not confirm that to their best knowledge and belief:

- They had provided us with all the essential information;
- The information they provided to us was accurate and complete; and
- They had followed USAID's policies.

(A complete description of the essential information that USAID/Uganda would not provide or confirm is provided in the Scope and Methodology section of this report).

Without these confirmations from USAID/Uganda, we cannot fully determine if USAID/Uganda did what it is required to do. Without such confirmations, we would, in essence, be stating that USAID/Uganda complied with USAID policies and procedures when USAID/Uganda itself is unwilling to make such a statement.

While we cannot state positively that USAID/Uganda followed its policies and procedures, this lack of a management confirmation would not preclude us from reporting on any problem areas that came to our attention. Based on the information that USAID/Uganda did provide to us and the tests that we were able to perform, the following information came to our attention.

Did USAID/Uganda ensure that program dollar funds were deposited into a separate, non-commingled, interest-bearing account and were disbursed for intended purposes?

As discussed above, we cannot fully answer the audit objective. Nonetheless, records at USAID/Uganda showed that program dollar funds were deposited into a separate, non-commingled, interest-bearing account. However, the Mission did not fully ensure that program funds were properly accounted for by the Bank of Uganda (Bank). In addition, a required annual audit of the dollar account for the Government of Uganda's (Government's) fiscal year ended June 30, 1994, had not been scheduled.

Dollar Funds Were Deposited
<u>Into a Separate Account</u>

USAID Handbook 1 Part IV.1, USAID Bulletin No.2 of March 1992 entitled "Financial Analysis: Program and Project Implementation," and the program grant agreement require the establishment of a separate, non-commingled, interest-bearing account[1].

Records at USAID/Uganda showed that the Government established a separate, non-commingled, interest-bearing account at Citibank, New York. At the time of the audit, in November 1994, two tranche releases totaling $21 million had been deposited into the account. As of that date, the account balance was $7.4 million with $21.2 million in credits, including interest earnings and $13.8 million in net disbursements.

In addition, according to USAID/Uganda officials, the Mission performed reviews of quarterly reports submitted by the Bank to ensure dollar funds were used for authorized purposes. Through these reviews, the Mission detected and disallowed two payments totaling $472,055 which did not qualify for the approved purpose of paying official U.S. Government debt and debt to multilateral development banks and lending institutions.

As part of the audit, we reviewed a sample of debt payments to determine whether dollar funds were being used for the approved purpose. The records

[1] USAID Guidance dated August 1994 on return of interest from the dollar account to the U.S. Treasury is not retroactive. Therefore, interest from the first two tranches under this program was programmed as principal in compliance with the earlier policy. However, the use of interest from the third tranche of $8 million will be governed by the new policy.

reviewed at USAID/Uganda showed that, for the transactions tested, the dollar funds were used for the approved purpose.

USAID/Uganda Needs to Ensure
Dollars Are Properly Accounted For

USAID policy requires monitoring of the operation of the dollar account to ensure that the host country implementing agency maintains financial records which document the withdrawal of dollar funds and their tracking to final acceptable uses. However, the Mission did not ensure that the Bank included a procedure in its system of tracking dollar transactions for Support for the Uganda Primary Education Reform Program (SUPER) to ensure all entries to the account were valid and properly approved. This occurred because the Mission believed adequate procedures were in place at the Bank to track dollar funds and ensure the validity and accuracy of transactions. As a result, the Mission did not have reasonable assurance regarding the appropriateness of all disbursements from the dollar account and the reasonableness of interest credited to the account.

Recommendation No.1: We recommend USAID/Uganda, in coordination with the Government of Uganda's implementing agency:

1.1 Issue a Project Implementation Letter requiring the Bank of Uganda to establish and maintain a cashbook/ledger to track receipts and disbursements from the dollar account; and

1.2 Request Citibank, New York to credit the dollar account with approximately $3,644 in interest earnings for the month of December 1993.

USAID Handbook 1, Part IV.I states that appropriate procedures for tracking uses of dollars released from the separate account and associated accountability arrangements will vary, depending upon the nature of the assistance, the recipient's foreign exchange and import regimes, the integrity of its accounting systems, the political environment and other factors. However, adequate monitoring by USAID staff is required in every case. In addition, financial records maintained by the grantee should, at a minimum, document the withdrawal and disposition of dollar funds from the separate account and their tracking to final acceptable uses.

USAID/Uganda did not fully ensure that dollar funds in the Citibank account were properly accounted for by the Bank. According to USAID/Uganda officials, the Mission conducted reviews of reports submitted by the Bank on the dollar account. However, these officials did not conduct detailed reviews of the dollar account including, for instance, reviews to determine the reasonableness of interest earnings. Beyond these reviews, the Mission relied on the Bank's management of the account without subsequent review of its procedures for tracking dollar transactions.

The Mission was unaware the Bank had not included a procedure in its system of managing the dollar account to ensure all entries to the account were valid and properly approved. The audit found the Bank had not established a cashbook/ledger to track receipts and disbursements and to ensure that all entries to the account were valid and properly approved. The reconciliation statement used by the Bank for this purpose is inadequate and cannot be relied on to ensure the accuracy and validity of all dollar account transactions. For example, the audit found two instances of double payments relating to transactions for $1,355,485 and $145,094. Although these were subsequently reversed, we believe the Bank erroneously instructed Citibank to make these double payments. In addition, our review of the reasonableness of interest earnings for the period up to October 1994, showed the total interest earned should have been $205,115[2] and not the amount credited, $201,471. Thus, the dollar account was not credited with interest of about $3,644 earned from December 1 to 22, 1993. There was no evidence that either the Bank or the Mission reviewed interest credited to the account for reasonableness. In addition, the Bank overpaid another creditor by $630.

Mission officials believed adequate procedures were in place at the Bank to track dollar transactions for SUPER and ensure their validity and accuracy. These Mission officials stated that, at the design stage, the Mission had satisfied itself the Bank had the capability to manage the special account, thereby reducing the level of Mission involvement. Also, according to Mission officials, the Mission conducted reviews of quarterly reports submitted by the Bank to ensure disbursements were for the approved purpose. However, we found the system of tracking payments at the Bank inadequate. The Mission should have reevaluated its position when the Bank made two payments for unauthorized purposes and made double payments. As a result, the Mission did not have reasonable assurance regarding the appropriateness of all disbursements from the dollar account and the reasonableness of interest earnings credited to the account.

[2] The account earned $5,644 in interest between December 1 and 22, 1993. However, only $2,220 was credited for that month. This shortfall explains the difference between the total amount earned ($205,115) and the amount credited ($201,471).

Based on the above, we concluded that USAID/Uganda needed to ensure the Bank establish a cashbook/ledger for the dollar account and request Citibank to rectify the discrepancy in interest earnings. By the end of audit field work on January 20, 1995, the Bank had approved the installation of a new cashbook/ledger into its system for the dollar account. We found the design of this cashbook/ledger satisfactory. In addition, the Bank had received another statement from Citibank for December 1993 with revised interest earnings, and was waiting for confirmation from Citibank that the revised interest was reflected in the current balance of the account.

Required Annual Audits
Needed to be Scheduled

USAID policy requires annual audits of program dollar accounts. However, USAID/Uganda had not ensured that the required audits were done. This occurred because, although Mission officials were aware of the requirement for audit, they were not aware these audits had to be performed annually. Also, Mission officials believed the audit covered by this report would satisfy the audit requirement. However, we informed them this is a performance audit, not a financial audit, and cannot be used to meet the financial audit requirement. As a result, the Mission did not have the level of assurance on the proper operation of the dollar account which a financial audit would provide.

> Recommendation No.2: **We recommend USAID/Uganda, in conjunction with the host government implementing agency, schedule required annual audits of the dollar account for the first fiscal year (the year ending June 30, 1994) and subsequent fiscal years.**

The cable guidance State 194322 (June 1990) states that missions must ensure audits of separate accounts are performed at least once a year. Also, the program agreement requires the grantee to perform annual audits of the dollar account using the services of an independent public accounting firm agreed to by USAID.

However, USAID/Uganda had not ensured that an audit of the dollar account for the Government's fiscal year 1994 (the year ending June 30, 1994) was performed. In addition, the Mission had not ensured that the Government scheduled audits for subsequent fiscal years to ensure dollar funds are used for intended purposes. The first tranche ($10 million) was deposited in this account in August 1993 while the second tranche ($11 million) was deposited in December 1993. As of October 1994, the account had $21.2 million in credits, including interest earnings, and net disbursements totaling $13.8 million. The first disbursement was in September 1993.

Audits had not been scheduled because, although Mission officials were aware of the requirement for audit, they were not aware that such audits had to be performed annually. Also, the Mission had not requested the Bank schedule the required audits because Mission officials believed the audit covered by this report would satisfy the audit requirement. However, since this is a performance audit and not a financial audit, it cannot be used to meet the financial audit requirement.

As a result, USAID/Uganda did not have the level of assurance on the proper operation of the dollar account which a financial audit would provide. In addition, any informal reviews of quarterly reports from the Bank by Mission officials can only detect major violations. Irregularities such as under-crediting of interest earnings to the account, payments to the wrong creditors, or overpayments to other creditors, which singularly or in aggregate can result in significant misstatements, would remain undetected.

Based on the above, we concluded that USAID/Uganda needed to have a financial audit of the dollar account scheduled for the Government's fiscal year 1994 and to ensure audits are performed annually thereafter. The Mission officials stated the Government Auditor General (AG) would conduct the audits. However, we informed them the AG must be acceptable to and sign an agreement with RIG/A/Nairobi before it can audit USAID-funded programs.

Did USAID/Uganda ensure that local currency was deposited into a special, interest-bearing account and was disbursed for intended purposes?

As discussed above, we cannot fully answer the audit objective. Nonetheless, records at USAID/Uganda showed local currency contributions were deposited into separate and non-commingled local currency bank accounts. However, the accounts were not interest-bearing. Also, records at the Mission showed that USAID/Uganda and the Government jointly programmed the local currency and issued a Project Implementation Letter (PIL) on agreed-upon uses. However, the Mission did not ensure the Government scheduled a required audit to verify that local currencies had been used for agreed-upon purposes.

Local Currency Deposited Into Separate Accounts

The program grant agreement required local currency be deposited into a separate, non-commingled interest-bearing account. In addition, section 4.2 of Policy Determination No. 18 requires local currency in the special account be jointly programmed by USAID and the host government.

Records at USAID/Uganda showed the Mission ensured that the Grantee established a separate and non-commingled local currency account at the Uganda Commercial Bank. Managed by the Ministry of Finance and Economic Planning (Ministry of Finance), this account was used to deposit Trust Funds before being paid over to USAID/Uganda. By the time of the audit in November 1994, a total of Ush.2 billion[3] ($2.18 million) was deposited into this account. In March and July 1994, two other separate and non-commingled accounts were established at the Uganda Commercial Bank by the Ministry of Education and Sports (Ministry of Education). One of these accounts was managed by the Ministry's Project Implementation Unit (PIU) while local currency for competitive incentive grants was deposited in the other account. Local currency deposits in the PIU account amounted to Ush.161 million ($175,573), and deposits in the account for incentive grants amounted to Ush.300 million ($327,154).

Regarding the use of local currency deposits, records at the Mission showed that USAID/Uganda and the Government jointly programmed the local

[3] In November 1994, the rate of exchange between the U.S. Dollar and Uganda Shilling was Ush.917.

currency and issued a PIL on agreed-upon uses. However, the Mission needed to schedule annual audits to ensure local currency disbursements were for authorized purposes.

Local Currency was Deposited
Into Non-interest Bearing accounts

USAID/Uganda did not ensure that local currencies for SUPER were deposited into interest-bearing accounts as required by USAID policy. This occurred because the Uganda Commercial Bank discontinued its policy of offering interest-bearing accounts after the Ministry of Finance account had been established. In addition, Ministry of Education officials expected local currencies would be quickly disbursed and did not see the need for interest-bearing accounts. As a result, the program lost about $6,385[4] in interest earnings.

> **Recommendation No.3: We recommend USAID/Uganda require the Government of Uganda to deposit all local currency under the program into interest-bearing accounts.**

Section 5.6 of USAID's Policy Determination No. 18 and section 5.2 of the Supplementary Guidance on programming and Managing Host Country-Owned Local Currency recommend local currency be placed in interest-bearing accounts in deposit-taking institutions. The interest earned from these accounts are to be programmed as if it were principal, so long as such accounts are permitted under host country laws and regulations and do not undermine internationally-supported stabilization agreements and sound monetary policy. Furthermore, a written determination not to follow USAID's preference for interest-bearing accounts is to be made by the Mission Director.

However, local currency under the SUPER program was deposited in three non-interest bearing accounts at the Uganda Commercial Bank. According to a letter dated February 17, 1993, the Uganda Commercial Bank initially opened an interest-bearing account for SUPER at the bank on behalf of the Ministry of Finance. This satisfied the condition precedent for the establishment of a separate interest-bearing account before the first tranche of $10 million could be released. However, according to a Uganda Commercial Bank official, the bank discontinued offering interest-bearing current accounts

[4] To compute the interest lost, a rate of two per cent was applied to the average monthly balance for each of the program's three non-interest bearing local currency accounts. This is the rate of interest paid by Ugandan commercial banks on savings accounts.

and savings accounts in mid-1993. Therefore, the original SUPER account opened in February 1993 reverted to a non-interest-bearing account. In addition, the two special accounts subsequently opened for the Ministry of Education were established after the bank stopped offering interest-bearing current accounts. According to Mission officials, USAID/Uganda was aware of this before the audit started and had been trying to resolve it with the Government. The Mission should have ensured that the accounts were interest bearing or made a written determination not to follow USAID policy.

This occurred because the Uganda Commercial Bank discontinued its policy of offering interest-bearing current accounts after the Ministry of Finance account had been established. In addition, Government officials stated that since it had been expected the Ministry of Education's incentive grants funds would be quickly disbursed, they had not considered it necessary to deposit the funds in an interest bearing account. Also, PIL No. 14 dated October 21, 1994, removed the need to deposit Trust Funds in the Ministry of Finance's account before being paid over to the Mission. However, USAID policy requires deposit of program local currencies into interest-bearing accounts regardless of whether the funds are expected to be quickly disbursed, unless the mission makes a written determination. Also, the Ministry of Finance account, which was established in February 1993, should have been moved elsewhere when the Uganda Commercial Bank discontinued offering interest-bearing current or savings accounts in mid-1993. As a result, the program lost about $6,385 in interest earnings.

Based on the above, we concluded USAID/Uganda needed to have local currencies under the program deposited in interest-bearing accounts. On November 22, 1994, an official in REDSO's Office of Legislative Affairs, Nairobi, informed the Mission program funds in non-interest bearing accounts should be moved to interest-bearing accounts even if these accounts pay minimal interest. USAID/Uganda agreed with this position. On January 5, 1995, the Mission issued PIL No.15 informing the Government the three local currency accounts at Uganda Commercial Bank no longer paid interest and were therefore not in compliance with the terms of the program grant agreement. According to this PIL, the Government needed to negotiate an arrangement with the Uganda Commercial Bank to pay interest on the existing accounts or transfer the accounts to one of the commercial banks in Uganda which pays interest on current accounts.

Required Annual Audits
Needed to be Scheduled

The grant agreement for the SUPER program included provisions for annual audit of the special local currency accounts. However, the audit for the Government's fiscal year 1994 (the year ending June 30, 1994) had not been done and audits for subsequent years were not scheduled. This occurred because the project implementation plan did not define the date of the first audit, and the Mission had not agreed with the Government on how to satisfy the requirement for annual audits. As a result, USAID/Uganda had not verified whether the agreed amounts of local currency were deposited in the special accounts and disbursed for agreed-upon purposes.

> **Recommendation No.4 : We recommend USAID/Uganda require the Government of Uganda to schedule annual audits for the special local currency accounts.**

Section 5.1.C of the Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency states that missions should ensure special local currency accounts are audited periodically. At the Program Assistance Approval Document stage, missions should discuss with the host government the requirements regarding auditing the special account, and the subsequent program agreement should contain specific language concerning audit responsibilities, frequency and funding.

USAID/Uganda included provisions for audit of the special local currency account in the program grant agreement. However, the Mission had not made sure an audit of the special accounts for the Government's fiscal year 1994 was done to verify that local currencies were used for the agreed-upon purpose. In addition, the Mission had not agreed on dates for subsequent audits.

Annual audits had not been scheduled because the project implementation plan did not define the date of the first audit or dates of subsequent annual audits. Also, the Mission had not agreed with the Government on how to satisfy the requirement for annual audits. Therefore, Government officials stated they were not sure whether annual audits by the Government's Auditor General would satisfy this requirement. As a result of not scheduling an audit, USAID/Uganda had not verified whether the agreed amounts of local currency were deposited into the special accounts and disbursed for agreed-upon purposes. Based on this, we concluded the Mission needed to schedule an audit to cover all special account transactions and ensure that the special account is audited annually thereafter.

Was the program on target in meeting its policy reform objectives?

As discussed above, we cannot fully answer the audit objective. However, records at USAID/Uganda indicated the program component of SUPER is on-track towards meeting its policy reform objectives. We did not do enough work to determine if the project component was meeting its objectives, because Mission and contractor officials indicated the project component is in the initial stages of implementation. However, Mission and technical assistance contractor officials told us the project component was progressing towards meeting its objectives.

Records Indicated Program Component
<u>was Meeting Policy Reform Objectives</u>

According to the program grant agreement, the purposes of the program are to:

- Improve student mastery of reading, mathematics, and other basic skills;

- Improve school administration, management, and accountability; and

- Reduce differences in continued attendance among different groups of children.

These were to be achieved by pursuing three policy reforms under the program component and one policy reform under the project component. These policy reforms were:

- Improve teachers' terms of service to attract better qualified teachers;

- Allocate resources to facilitate local level decision making on school management to improve the quality and increase the equity of primary education;

- Allocate resources to provide primary schools with a sustainable supply of instructional materials; and

- For the project component, reform the teacher training system.

According to the Program Assistance Approval Document, these improved conditions would result in the following outputs by the end of the program:

- About 105,000 teachers who are better compensated and thus spending more time on task;

- Textbooks in the four core subjects (English, math, science, and social studies) and corresponding teachers' guides for every teacher;

- 2,400 schools with better management and accounting systems; and

- 2,500 primary schools will have received incentive grants to fund strategies to increase continued attendance among disadvantaged groups and raise school quality.

To ensure implementation of the policy reforms, the program grant agreement conditioned the disbursement of dollar funds under the cash transfer to actions by the Government designed to provide funding for the reforms. The Government was required to budget and fund, among others, higher salaries for primary school teachers and procurement of instructional materials. In addition, the Government was required to deposit into a special account the local currency equivalent of about $17.5 million over the life of the program. In this regard, the local currency equivalent of $2.1 million was to be deposited by the Government before the first two tranches of USAID funds could be used for agreed-upon purposes, including the payment of incentive grants and distribution of textbooks.

Conditions precedent to the release of the first tranche constituted the first step in the process of implementing the policy reforms. The release of this tranche was conditioned upon the satisfaction of eight conditions, five of which were administrative in nature and three programmatic. The programmatic conditions required a plan from the Government for improved terms of service for teachers, for administrative procedures to pay incentive grants to primary schools, and for a budget line item to procure and distribute textbooks. Another condition required the establishment of a separate interest-bearing local currency account. USAID/Uganda made sure all eight conditions were satisfied before release of the first tranche of $10 million.

Conditions for the release of the second tranche included the requirement for documentation confirming increases in salaries for primary school teachers exceeding the rate of inflation had been budgeted in the Government's fiscal year 1995 and separate line items included in the Government's fiscal year 1994 budget for the payment of incentive grants ($300,000) and for the purchase of instructional material. These three conditions were satisfied before release of the second tranche of $11 million. The Government increased teachers' salaries (for all 95,205 teachers) by as much as 169% for some grades, effective November 1993. In addition, the Government included in its fiscal year 1994 budget $3 million for the purchase of instructional material and about $408,940 (Ush.375 million) for the payment of incentive grants.

To secure the release of the third tranche of $8 million, the Government was required to set staffing ceilings for primary schools and to pay salaries based on those ceilings. In addition, the Government was to disburse the local currency equivalence of $250,000 in fiscal year 1994 incentive grants and include separate line items in the fiscal year 1995 budget (the equivalent of $4 million) for incentive grants and procurement of instructional material. Also, the Government was required to provide documentation confirming it had entered into contracts for supplying no less than 600,000 primary school textbooks and reference materials in the four core subjects and that the fiscal year 1995 budget included no less than $4 million for the purchase of textbooks, teacher guides, and instructional materials. To date, the Government has disbursed the local currency equivalent of $300,000 in incentive grants to 100 primary schools. According to Mission officials, satisfaction of all three conditions is expected by April 1995, after which the third tranche was scheduled to be released.

Project Component has
Just Been Implemented

The Project Component has a $25 million total life-of-project funding. According to a MACS report dated November 17, 1994, $7.9 million was obligated and $1.5 million had been spent. Most of the expended funds have gone into teacher training, purchase of office equipment, and a country-wide head count of teachers.

The following outputs are expected from the Project Component:

- 10 restructured primary teachers' colleges and a reformed teacher support system in each of the 10 districts;
- 260 tutors trained in 2 districts;
- 3,500 primary teachers trained in the revised Grade III curriculum through pre-service courses;
- 4,000 practicing primary school teachers trained with the revised Grade III through in-service upgrading;

- 29,000 teacher-days of in-service skill training;

- 1,680 head teachers trained in management, financial accounting, and leadership skills;

- 18,900 days of training for community leaders, Parents and Teachers Association leaders, and members of school management committees; and

- 1,400 person-days of training for district education officers and educational administrators.

The following outputs were expected from the technical assistance contractor, Academy for Educational Development (AED), for Phase I (the first 3 years of the contract):

- two restructured primary teachers' colleges;
- 50 coordinating schools;
- 60 trained tutors for the primary teachers' colleges;
- 1,000 teachers upgraded to Grade III;
- 500 headmasters trained in school management;
- 8,000 person-days of training for teachers;
- 500 person-days of training for district officials; and
- 5,000 person-days of training for community leaders.

According to an AED official, the contractor has started work on 2 primary teachers' colleges in the districts of Bushenyi and Gulu, established 49 coordinating centers, and conducted 2,000 person-days of training for district education officers. In addition, the contractor has conducted 96,000 person-days of training for teachers and completed the country-wide teacher head-count.

USAID/Uganda and AED officials told us the project component of SUPER was in its initial stages of implementation. Therefore, we did not do enough work to determine if it was meeting its objectives. However, Mission and AED officials told us the project component was progressing towards meeting its objectives.

MANAGEMENT COMMENTS AND OUR EVALUATION

The following is a summary of Mission comments on the draft report and our evaluation of the comments. The complete text of Mission comments is included as Appendix II to this report.

Management's General Comments

Regarding the disclaimer language, USAID/Uganda stated that although the Mission's policy is not to provide representation letters, it cannot understand why this issue is repeated throughout the report thereby affecting the presentation of some factual findings. According to the Mission, the lack of a representation letter and the corresponding disclaimer need only appear once, at the beginning of the report. In their opinion, this would be more consistent with professional standards. Also, the Mission said it felt that the general tone and presentation of the report, particularly the executive summary gives the impression that this is a troubled program, which the Mission said it is not. Finally, the Mission requests the section "Management Comments and Our Evaluation", which was left blank in the draft report, be provided to the Mission for its comments prior to issuance of the report in final.

Concerning the disclaimer language, RIG/A/Nairobi has followed its policy which specifies the language to be used in various sections of the report in cases where a representation letter is not provided. The language used in this report is not new to USAID/Uganda. Unlike other Missions in the region, USAID/Uganda has not provided a representation letter to RIG/A/N for any audits since July 1991, when the Inspector General's policy on representation letters became effective. As in the past, and contrary to specific guidance from senior USAID management (for instance, the August 21, 1992 guidance), USAID/Uganda has repeatedly refused to negotiate or develop a letter to confirm basic evidence for this audit. Such a letter would have made it possible for the auditors to provide reasonable assurance on positive findings without having to disclaim or attribute that information.

Concerning the general tone and presentation of the report, we have once again followed our policy on disclaimer language. If the report gives the impression that this is a troubled program, it is because without a representation letter the auditors cannot state positively that USAID/Uganda followed relevant policies and procedures. However, the auditors can report fully on any problem areas that came to their attention.

In regard to "Management Comments and Our Evaluation", this section was not included in the draft report because the purpose of that report was to solicit management comments. Those comments have now been obtained and summarized in this section along with our independent evaluation. In addition, the complete text of management comments is included as an appendix to this report.

<u>Recommendation No. 1</u>

USAID/Uganda concurred with the findings and provided documentary evidence to support the implementation of recommended actions as follows:

- BOU installed a cashbook/ledger into its system for the dollar account and
- Citibank revised the understated interest.

However, the Mission took exception to its administrative reviews of bank statements being referred to as "informal."

Based on the above actions by USAID/Uganda, Recommendation No. 1 is closed. Concerning the description of the administrative reviews, the word "informal" is intended to make the reader aware such reviews were not documented. We have made appropriate changes to the wording in the final report.

<u>Recommendation No. 2</u>

USAID/Uganda concurred with the finding and recommendation and stated that the Government's Auditor General has initiated actions to contract for an audit by sending out a request for proposals to three CPA firms. Based on this action by USAID/Uganda, Recommendation No. 2 is resolved. It will be closed when this office receives documentary evidence the Auditor General has contracted for the required audit.

Recommendation No. 3

USAID/Uganda generally agreed with the finding, but disagreed with its presentation. According to USAID/Uganda, the report does not substantiate the statement that the Mission did not ensure deposit of local currency in interest-bearing accounts. In addition, the Mission said the report gives the impression the Mission was unaware of this problem before the audit and had therefore not initiated actions to resolve it. According to USAID/Uganda, the Mission was aware of this problem and had initiated discussions with the Regional Legal Advisor, including the issuance of PIL No.15 informing the Government of noncompliance with terms of the grant agreement. Finally, and in response to the audit recommendation, the Government closed one of the three non-interest bearing accounts at Uganda Commercial Bank and transferred the other two non-interest bearing accounts to a different bank.

Concerning the presentation of the finding, we feel the report presents the facts fairly and gives credit where credit is due. The facts are that, although the Mission made sure local currency was initially deposited into an interest-bearing account at the Uganda Commercial Bank in February 1993, the account continued to be operated after the bank discontinued paying interest on the account in mid-1993. The account was still being used at the time of the audit in November 1994. In addition, two additional local currency accounts were established at the same bank in March and July 1994, long after interest payments were discontinued for the first account. The establishment of these two non-interest bearing accounts, to which there was no evidence of Mission objection, was a direct contravention of the terms of the grant agreement. Therefore, we disagree that proper oversight and management of local currency funds was demonstrated. Correspondence between USAID/Uganda and the Office of Legislative Affairs in Nairobi during the audit shows the Mission was considering waiving USAID policy on interest-bearing accounts. However, in an E-mail dated November 22, 1994, Legislative Affairs in Nairobi informed the Mission that:

> ***"...where there are accounts in the country that do offer interest, nominal though it may be, we must follow USAID policy. We only waive it where there are no such accounts in the host country."***

The Mission complied with this guidance by issuing PIL No.15, dated January 5, 1995, followed in May 1995, by the establishment of two interest-bearing accounts at a different bank.

Based on the above actions by USAID/Uganda, Recommendation No.3 is closed.

Recommendation No.4

USAID/Uganda concurred with the finding and recommendation and stated that, at the Mission's request, the Government's Auditor General had issued a request for proposals to three approved CPA firms for an audit. Based on this action by USAID/Uganda, Recommendation No. 4 is resolved. The recommendation will be closed when this office receives documentary evidence the Auditor General has contracted for the required audit.

APPENDICES

SCOPE AND METHODOLOGY

Scope

We followed generally accepted government auditing standards except that USAID/Uganda's management would not provide us with a representation letter (although one was requested) confirming information essential to fully answer the audit objectives. Management's refusal to make such representations constitutes a limitation on the scope of the audit. The information that USAID/Uganda's management would not confirm, *to the best of their knowledge and belief*, was:

1. Whether they are responsible for the internal control system, compliance with applicable laws and regulations, and the fairness and accuracy of the accounting and management information for the organization under audit;

2. Whether they have provided us with all the financial and management information associated with the activity or function under audit;

3. Whether they know of any irregularities in the activity;

4. Whether they know of any material instances in which financial or management information has not been properly and accurately recorded and reported;

5. Whether they are aware of any material instances of noncompliance with USAID policies and procedures or violations of laws and regulations;

6. Whether they have complied with contractual agreements; and

7. Whether they know of any events subsequent to the period under audit that could affect the above representations.

The answers to the above questions are so fundamental to the basic concepts of auditing it is not possible to render a positive conclusion without them. Thus, if managers will not answer these basic questions and will not confirm their answers in writing through a representation letter, then we cannot risk giving a positive conclusion when managers will not even confirm to us what they know.

While we cannot render a positive conclusion without such representations, this lack of a management confirmation does not preclude us from reporting on any problems areas that came to our attention, and we have done so.

We conducted the audit of Support for the Uganda Primary Education Reform Program (SUPER) from November 16, 1994, to January 20, 1995, in the offices of USAID/Uganda. In performing our audit, we obtained documentary and testimonial evidence from the offices of USAID/Uganda, the Ministry of Education and Sports, the Bank of Uganda, and the technical assistance contractor. This is discussed under the methodology for each audit objective. The audit covered the systems and procedures relating to (a) deposit and use of program dollar funds, (b) deposit and use of local currencies, and (3) achievement of the program reform objectives.

According to USAID/Uganda's records, as of November 17, 1994, a total of $29 million was obligated and $21 million disbursed for the program component; and $7.9 million was obligated and $1.5 million disbursed for the project component. The audit covered $21 million disbursed under the program component and the equivalent of about $502,725 (Ush.461 million) deposited in two special local currency accounts managed by the Ministry of Education and Sports. Regarding the Trust Fund special account with deposits amounting to Ush.2 billion, the audit only assessed whether the agreed-upon local currency under each tranche release was deposited in the account. For the project component of SUPER, discussions with Mission and Contractor officials indicated implementation is in the initial stages. Therefore, we did not do enough work to determine whether this project component was on-track in achieving its objectives.

As part of this audit, we reviewed four prior USAID Inspector General audit reports relating to host country-owned local currency and assessment of program results: Audit Report No. 3-696-93-08 (USAID/Rwanda's Management of Host Country-Owned Local Currency); Report No. 3-632-93-11 (USAID/Lesotho's Management of Host Country-Owned Local Currency); Report No. 3-621-94-005 (USAID/Tanzania's Management of Host Country-Owned Local Currency); and Report No. 5-492-94-018 (USAID/Nepal's Controls Over Grants and Cooperative Agreements). Furthermore, we reviewed USAID/Uganda's internal control assessment for 1994.

We did not test the reliability of computer-generated data used in the report because the reliability of the data was not crucial to accomplishing the audit objectives and computer-generated data has been used only to a limited extent, e.g. for background and informational purposes. We have cited the source of the information wherever computer-generated data is used in the report.

Methodology

The methodology for each audit objective follows.

Audit Objective One

To accomplish this objective, we determined whether program dollar funds were properly accounted for and disbursed for authorized purposes. In this regard, we determined whether a separate, non-commingled, interest-bearing account was established and whether dollar funds for the first two tranche releases ($21 million) were deposited in that account. On a judgmental sample basis, we also assessed whether dollar disbursements were used for the approved purpose of paying official U.S. Government debt and debt to multilateral development banks and lending institutions.

Audit Objective Two

To accomplish this objective, we determined whether a special local currency account was established as required by USAID policy, and whether the agreed-upon local currencies were deposited into this account. Also, we determined whether local currency under SUPER were deposited into an interest-bearing account and whether, for the first two tranche releases, interest earned was programmed as principal.

Audit Objective Three

To accomplish this objective, we determined whether the grant agreements and Program Assistance Approval Document contained the specific economic reforms which the SUPER cash transfer was intended to help implement, the anticipated time frames for achieving these reforms, the anticipated impacts of the reforms, and verifiable performance indicators for assessing progress towards achieving the stated reform objectives. Also, using available information, we assessed whether the SUPER program was on target in achieving its policy reform objectives.

USAID

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID/KAMPALA:
Agency for International Development
Washington D.C. 20521 - 2190.

UGANDA ADDRESS:
USAID Mission to Uganda
P. O. Box 7007, Kampala, Uganda

05 JUN 1995

TO: Everette Orr, RIG/A/Nairobi
Inspector General Audits

FROM: Donald Clark, Mission Director
USAID/Uganda

SUBJECT: Audit of USAID/Uganda's Support to Uganda Primary Education Reform (SUPER) Program (617-0131/32)

GENERAL COMMENTS:

USAID/Uganda requested this audit due to the size and importance of the SUPER Program to the Mission's portfolio. We were pleased with the quality of work done by the auditors and by their collaborative approach to the assignment. The good cooperation among the auditors, Mission staff and GOU counterparts resulted in an audit that demonstrated to Mission management that the Program is well-managed and achieving its objectives. At the same time, the audit also revealed some useful areas for management follow-up. From Mission management's point of view the audit exercise effectively served its purpose.

Given the cooperation enjoyed during the audit exercise, Mission management was surprised by the draft audit report. We seriously question the intent of reporting findings in a manner that implies USAID/Uganda withheld information from the audit team - all the more so in light of the very collaborative relationships established during the audit exercise. The Mission fully cooperated with the RIG/A team by opening up the project files to the auditors, providing all information that was requested (and then some) and ensuring that the auditors had access to all relevant Government of Uganda officials involved in the implementation and management of the program.

We readily acknowledge this Mission's policy not to provide a representational letter. However, we question the usefulness of repeated reference to the lack of a representational letter. A single statement at the beginning of the audit pointing out that USAID/Uganda Mission policy is not to provide representational letters, and RIG/A's qualifications in light of the absence of such a letter would clearly disclose without distorting the

Plot 42 Nakasero Road, Kampala Telephone (256 041) 235879, 242896, 241521, 244087 Fax (256 041) 233417, 233308

actual findings. We also believe that such an approach would be more consistent with professional standards, and more conducive to the highly touted reengineering effort towards collaboration in lieu of confrontation.

In addition to the distorting issue of a representational letter, there are sections of the report which we believe do not accurately portray the actual audit findings as discussed in the wrap-up meeting held between RIG/A and Mission management. We find it unsettling that the tone and presentation of the report, particularly the executive summary, give the cursory reader the impression that this is a troubled program and that RIG/A discovered serious management shortcomings when, in fact, the auditors found a generally well-managed successful development effort. We treat specific examples of this in our comments below.

Finally, we note that a major section of the executive summary in the draft report is yet to be written entitled "Management comments and our Evaluation". We request that this section also be provided for Mission comments prior to release of the final report.

SPECIFIC COMMENTS:

USAID/Uganda has the following specific comments on the audit.

Mission general comment on RIG/A's reluctance to "Render a Professional Conclusion":

Federal Government employees are sworn to uphold the Constitution and laws of the United States. We are required to have integrity and honesty to carry out our jobs, and are held responsible for our actions, with a range of punishments including termination and civil or criminal action. We are also duty-bound by USAID policy and regulations to report irregularities and improprieties. Therefore, we see no reason whatsoever to sign a representational letter which is simply a reaffirmation of basic terms of service to which we already have committed ourselves.

Objective 1: Did USAID/Uganda ensure that program dollar funds were deposited into a separate, non-commingled, interest-bearing account and were disbursed for intended purposes?

Recommendation No.1: We recommend that USAID/Uganda in coordination with the Government of Uganda's implementing agency:

(a) issue a Project Implementation Letter requiring the Bank of Uganda to establish and maintain a cash book/ledger to track receipts and disbursements from the dollar account; and

(b) request Citibank, New York to credit the dollar account with

approximately $3,644 in interest earnings for the month of December 1993.

Concur. BOU has installed a new cashbook/ledger into its system for the dollar account. **Attachment I** provides a sample of the data being provided by the cashbook/ledger now installed by the bank. **Attachment II** is the documentation both from Citibank, New York and the BOU certifying that the understatement in interest earnings has been revised.

Mission would like to highlight the fact that prior to the audit the project office carried out regular quarterly and monthly administrative reviews of the bank statements for all SUPER Program accounts. In the case of the separate dollar account, this review identified two unauthorized payments for $200,000 and $272,055 and successfully required the GOU to re-deposit these amounts. Mission believes that audit reference to these regular administrative reviews by the project office as "informal" is inaccurate and misleading.

Mission requests that, with the information provided, Recommendation No.1 be closed.

Recommendation No.2: We recommend that USAID/Uganda in conjunction with the host government implementing agency schedule required annual audits of the dollar account for the first fiscal year (June 30, 1994) and subsequent fiscal years.

Concur. The Auditor General's office has been requested to contract with one of the three approved CPA firms to perform the required audit. Request for proposals were sent out as evidenced by **Attachment III**.

Mission recommends that Recommendation No. 2 be closed.

Objective 2: Did USAID/Uganda ensure that local currency was deposited into a special, interest-bearing account and was disbursed for intended purposes?

Recommendation No. 3: We recommend that USAID/Uganda require the Government of Uganda to deposit all local currency under the program in interest-bearing accounts.

The Mission finds this section of the audit report to be particularly disturbing. All local currency had originally been deposited into an interest-bearing account with Uganda Commercial Bank (UCB). UCB subsequently discontinued its policy of offering interest-bearing current accounts. Prior to the audit the Project Office, through its regular Program monitoring had identified the fact that the local currency accounts no longer accrued interest and that the GOU was, consequently, no longer in compliance with the SUPER Sector Grant Agreement. At the time that the audit began, the Project Office had already commenced discussions on the problem with the Regional Legal Advisor and had drafted a Project Implementation Letter to resolve the issue. In fact, the Project Office informed the auditors of this issue and provided them with the relevant documentation. In the Mission's view, this demonstrates entirely proper oversight and management and in no way substantiates the audit's assertion that USAID had failed to ensure the funds were in interest-bearing accounts.

During the course of the audit, the Mission issued PIL No.15 informing GOU of the non-compliance with the terms of the program grant agreement and requiring the GOU to move all local currency funds into interest-bearing accounts. The UCB account managed by the Ministry of Finance is closed, and the two accounts managed by the Ministry of Education and Sports have been transferred to Nile Bank and are interest-bearing as evidenced by **Attachment IV**.

Mission recommends that Recommendation No. 3 be closed.

Recommendation No.4: We recommend that USAID/Uganda require the Government of Uganda to schedule annual audits for the special local currency accounts.

Concur. The GOU's Auditor General, at USAID's request, tendered for an audit to cover the period ending June 1994. This audit will be funded with program funds. The request for proposal was sent out to the three RIG approved CPA firms as per **Attachment III**.

While the Mission recognizes this as a useful recommendation we note that at the time of the audit the two active local currency accounts managed by the Ministry of Education and Sports were less than a year old.

Mission recommends that due to the above action, Recommendation No.4 be closed.

Drafter:RMuwonge:FA:

Clearance:KMLizwelicha:D/Cont:

KGLeblanc:Cont:

Patrick Fine:GDO:

LDiaz:D/Dir: 6/5/95

Regional Inspector General for Audit, Nairobi, Kenya

Tim Elkins, Audit Manager
Leonard Mbugua, Auditor-in-Charge
Nicholas Makaa, Auditor
Francis Kimali, Referencer
Derald Everhart, Editor