

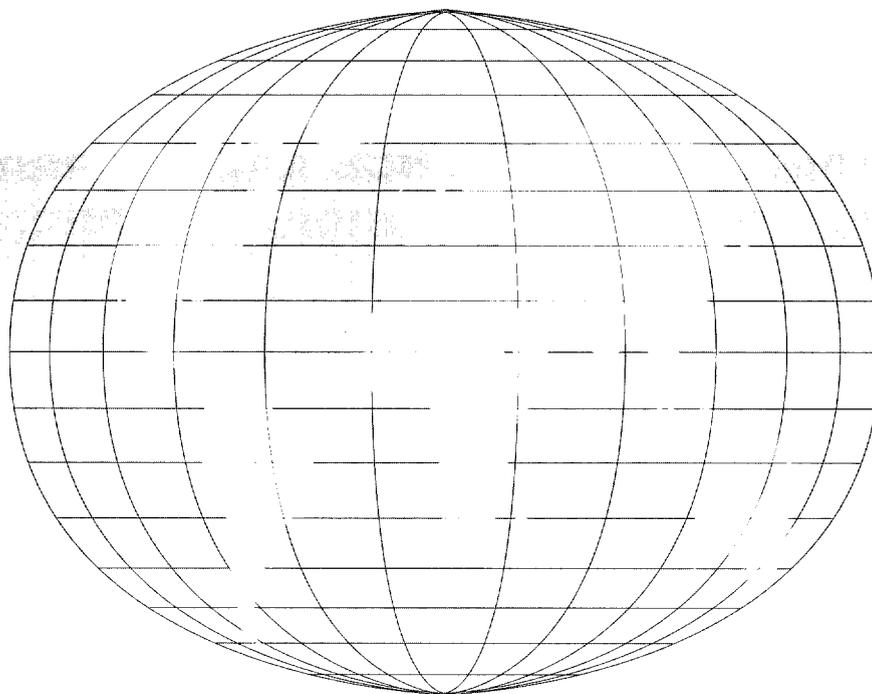
PD-ABN-160

Report of Audit

Regional Inspector General for Audit
San Salvador, El Salvador

**Audit of USAID/Haiti's Emergency Balance of Payments Support
Program, USAID/Haiti Grant No. 521-0253**

Audit Report No. 1-521-96-004
September 20, 1996



**OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

**Regional Inspector General for Audit
San Salvador, El Salvador**

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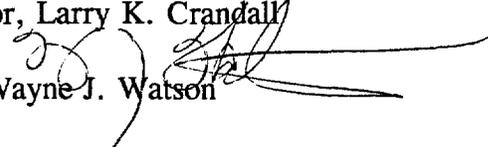
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September 20, 1996

MEMORANDUM

TO: USAID/Haiti Director, Larry K. Crandall

FROM: RIG/San Salvador, Wayne J. Watson 

SUBJECT: Audit of USAID/Haiti's Emergency Balance of Payments Support Program, USAID/Haiti Grant No. 521-0253 (Audit Report No. 1-521-96-004)

The Regional Inspector General for Audit/San Salvador has completed its concurrent audit of USAID/Haiti's \$45 million Emergency Balance of Payments Support Program. The audit objective was to determine whether USAID/Haiti followed USAID procedures in managing funds available for balance of payments support to the Government of Haiti under USAID/Haiti Grant No. 521-0253, dated September 30, 1994.

The audit disclosed that USAID/Haiti has followed USAID procedures in managing funds available for the balance of payments support program under the grant. Specifically, the audit found that USAID/Haiti followed USAID policies and procedures for (1) disbursing U.S. dollars, (2) approving uses of the local currency in accordance with USAID guidance and provisions of the grant agreement, and (3) implementing management controls reasonably assuring prevention of fraud or diversion of the U.S. dollars and local currency generated under the program. In this regard, USAID/Haiti disapproved \$3.3 million of disbursements proposed by the Government of Haiti (GOH). Although the majority of the \$45 million under the grant had been disbursed, there still remained a balance of \$4.6 million for which our audit tests showed that the proposed uses by the GOH were substantially in accordance with the grant terms. Also, the training stipend program under this grant has not been completed; however, audit coverage for that program is being provided under a recipient-contracted audit with a local public accounting firm.

USAID/Haiti agreed with interim results provided to them during the audit, subsequently drafting corresponding project implementation letters. USAID/Haiti's comments on the final report are included as Appendix II in the report. Since this final memorandum audit report contains no open recommendations, there is no further action required on the part of USAID/Haiti, except for any material findings and recommendations which may be reported in the recipient-contracted audit of the training stipend program, and upon disbursement of the remaining funds, confirming that the GOH's use of the funds was in fact in accordance with their previously submitted proposal.

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I appreciate the cooperation and assistance that you and your staff provided to the auditors during this assignment.

Background

Due to heavy deficit spending by the former de facto regime which controlled Haiti's public sector, unprecedented inflation and currency depreciation has resulted. This inflation could only be reduced by restoring control of the budget, reactivating tax collections, and introducing sufficient external balance of payments resources to the Haitian economy to cover the near-term budgetary shortfall. USAID/Haiti proposed a cash transfer grant for Haiti in the amount of \$45 million to assist the restored constitutional government of Haiti in stabilizing its economy and in financing the basic functions of government during the first months after political resolution.

Under the Emergency Balance of Payments Support Program (EBOP), USAID/Haiti Grant No. 521-0253, dated September 30, 1994, the dollar denominated cash transfers were available for disbursement in three tranches after certain conditions precedent were met by the Government of Haiti (GOH). Most of these EBOP dollar funds were used to finance petroleum purchases for Haiti, the sale of which resulted in the generation of local currency. For each petroleum purchase made with EBOP dollars, USAID/Haiti required that the GOH make a deposit of the equivalent amount of local currency into a special account in Haiti's central bank, Banque de la Republique d'Haiti. The remaining balance of the grant, totaling \$4.6 million, was to be used to pay international financial institutions (IFIs) directly by using U.S. dollars from the fund for external GOH debt as provided in the grant agreement. Schedule I on page 5 contains a listing of U.S. dollar disbursements for the program.

The uses of the local currency in the special account were jointly programmed by USAID/Haiti and the GOH. The local currency was used for general budget support to pay external debt to international financial institutions. A small portion of the funds were used to finance a training stipends program for ex-military and ex-police who were in vocational training for civilian occupations, as well as the associated financial audit costs of the program. Schedule II on page 6 contains a listing of local currency disbursements for the program.

Audit Objective

The objective of the audit was to determine if USAID/Haiti followed USAID procedures in managing funds available for balance of payments support to the Government of Haiti under USAID/Haiti Grant No. 521-0253. Specifically, we sought to determine whether USAID/Haiti generally followed USAID policies and procedures and the provisions of

the grant agreement for: (1) disbursing U.S. dollars, (2) approving uses of the local currency, and (3) ensuring that internal controls were adequate to provide reasonable assurance of preventing fraud or diversion of the U.S. dollars and local currency generated under the program. In answering this audit objective we restricted the audit to an examination of whether the Government of Haiti's proposed uses of local currency were approved uses under the grant agreement and under USAID policies and procedures, and also whether the proposed payments were actually made. We also examined the management controls for U.S. dollar disbursements. We did not include in the scope of the audit the program authorization process, nor the evaluation process under which the impact of the program is measured through the use of performance indicators. Appendix I contains a discussion of the scope and methodology for the audit.

Audit Findings

Did USAID/Haiti follow USAID procedures in managing funds available for balance of payments support to the Government of Haiti under USAID/Haiti Grant No. 521-0253?

USAID/Haiti followed USAID procedures in managing funds available for balance of payments support to the Government of Haiti under the grant. USAID/Haiti established controls to (1) approve proposed uses of the local currency for eligible purposes, and (2) provide reasonable assurance of preventing fraud or diversion of local currency deposited into the local currency account and disbursed from the account through the payment process. Of the \$45 million provided under the program, USAID/Haiti approved payments for \$40.4 million, leaving an undisbursed balance of \$4.6 million in the fund. As a result of effective coordination with RIG/San Salvador, USAID/Haiti disapproved for payment \$3.3 million in local currency disbursements proposed by the Government of Haiti that RIG/San Salvador found during the concurrent audit phase to be questionable. Schedules I and II show both dollar and local currency disbursements under the program.

USAID/Haiti followed required USAID policies and procedures, as well as provisions in the grant agreement, for the review and approval of proposed disbursements of the local currency by the GOH under the grant agreement. Specifically, USAID/Haiti:

- required the GOH to deposit in the special account an equivalent amount of local currency for each U.S. dollar disbursement made to purchase petroleum;
- as a part of its review and approval process, arranged for an independent audit of all proposed local currency disbursements by the GOH prior to approving disbursements of local currency from the special account;

- through project implementation letters, approved those disbursements for which it had adequate assurance of being appropriate under USAID policies and procedures and the terms of the grant agreement;
- required the GOH to furnish documentation to the audit staff establishing the fact that the approved payments made with local currency had been made; and
- arranged for a financial audit by a local public accounting firm to provide audit coverage for the training stipends program.

Since USAID/Haiti has taken final management action on the recommendation in this report, there is no further action required on the part of USAID/Haiti, except for any material findings and recommendations that may be reported in the recipient-contracted audit of the training stipends program, and upon disbursement of the remaining funds, confirming that the GOH's use of the funds was in fact in accordance with their previously submitted proposal.

USAID/Haiti Followed USAID Policies and Procedures in Reviewing and Approving Disbursements

USAID policies and procedures require that local currency generated under the program be used for only specified purposes. In this regard, USAID/Haiti followed USAID procedures in managing funds available for balance of payments support to the Government of Haiti under the grant. USAID/Haiti established controls for (1) disbursing U.S. dollars for petroleum purchases, (2) approving proposed uses of the local currency for eligible purposes, and (3) ensuring that they had reasonable assurance of preventing fraud or diversion of U.S. dollars and local currency generated under the grant. As a result, the Mission disapproved \$3.3 million of disbursements proposed by the Government of Haiti.

Recommendation No. 1: We recommend that USAID/Haiti disapprove the \$3,339,258 of proposed payments made by the Government of Haiti listed in Schedule III of this report which our audit identified as questionable.

Since the Mission has taken action to disapprove the above mentioned items, we consider this final management action on Recommendation No. 1 with nothing further required.

State Cable 204855 dated June 22, 1992, subject "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency," and PD-18, dated July 30, 1991, entitled "Local Currency," set forth Agency guidance over the programming and management of local currency. The guidance describes general budget support, including deficit or debt, as one of the permitted uses of host country-owned local currency. It also lists certain prohibited uses. The guidance requires that adequate

controls be in place to prevent fraud or diversion of funds under the program prior to disbursement to the host government. The eligible uses for local currency described in the grant agreement include general budget support to the GOH central government budget, retirement of GOH central government debt to the central bank, and administrative financial management and audit costs associated with the program.

In the program assistance approval document (PAAD), USAID/Haiti proposed using local currency generated under the program for general budget support for the Government of Haiti. The PAAD acknowledged, however, that financial management control systems in the GOH were not adequate. As a result, it could not be ensured that funds would not be diverted or that the goal of general budget support would be achieved. Therefore, during the drafting of the grant agreement, USAID/Haiti arranged for concurrent financial audit services from RIG/San Salvador in order to provide the necessary controls for reasonable assurance that the financial goals of the program would be accomplished and that fraud or diversion of funds would not result.

Although the grant agreement called for the grant funds to be deposited in a "separate" account, USAID did not elect to use this account. Instead, it made disbursements directly to various oil companies for the purchase of petroleum which the GOH subsequently sold locally in the commercial markets in Haiti. USAID/Haiti required that the GOH deposit an equivalent amount of local currency in a "special" account in Haiti's central bank, Banque de la Republique d'Haiti after the disbursement of U.S. dollars to the petroleum suppliers. This process was continued until \$4.6 million remained undisbursed under the grant. USAID/Haiti intends to use this final balance to pay GOH external debt directly to certain IFIs, instead of using it to purchase petroleum to generate local currency. Schedule I contains a listing of U.S. dollar disbursements for the program.

**Schedule I
U.S. Dollar Disbursements
USAID/Haiti Grant No. 521-0253**

Grant Amount		\$45,000,000
Disbursements:		
Petroleum Purchases:		
Shell	\$19,328,211	
Texaco	4,091,119	
West Indies Energy	8,719,062	
Exxon	<u>8,219,880</u>	
Total Petroleum Purchases		<u>40,358,272</u>
Undisbursed Balance		<u>\$ 4,641,728</u>

After discussions between the GOH Ministry of Finance and USAID/Haiti, the parties decided that the area of general budget support most likely to qualify under the grant and USAID guidance as an eligible use, and that would provide necessary local currency financial controls, would be GOH external debt to various IFIs. Following this decision, the GOH presented to USAID its three proposals for the use of the local currency, once the local currency was placed in the special account. The proposals contained items primarily for external debt to IFIs, with one proposed item for the payment of internal debt to the central bank.

Of the \$40.4 million of local currency generated by petroleum sales, \$36.5 million was used for actual payment of GOH external debt to IFIs; \$3.2 million was disbursed for the training stipend program; and \$.6 million represented a currency exchange loss. This loss resulted due to the fact that the external debt payments were denominated in currencies other than local currency, and the local currency had depreciated against the U.S. dollar while awaiting disbursement in the special account. Schedule II contains a listing of local currency disbursements.

**Schedule II
Local Currency Disbursements
USAID/Haiti Grant No. 521-0253**

Payments to International Financial Institutions:

Inter. Development Association (IDA)	\$ 4,592,326	
Int. Fund for Agricultural Dev. (FIDA)	3,333,549	
InterAmerican Development Bank (IDB)	13,824,433	
U.S. Agency for Int. Development (USAID)	2,843,705	
Org. of Pet. Exporting Countries (OPEC)	3,332,983	
Export Import Bank (EXIMBANK)	509,990	
International Monetary Fund (IMF)	2,771,270	
Fondo de Inversiones de Venezuela (FIV)	1,749,850	
Societe Generale de Surveillance (SGS)	979,549	
World Bank (WB)	<u>2,564,148</u>	\$36,501,803
Stipend Program		3,236,246
Exchange Rate (Gain) or Loss		<u>620,223</u>
Total		<u>\$40,358,272</u>

Once the proposals were received, RIG/San Salvador conducted its concurrent audit work to determine that: (1) the proposed uses were permitted under USAID guidance and the grant agreement, (2) their purpose was not prohibited, and (3) they represented legitimate

debt obligations of the GOH. If the payments had already been made by the GOH, the actual amounts of the payments were verified to the confirmation cables from the IFIs. The results of the concurrent audit work indicated that \$3.3 million in proposed payments did not meet the requirements of eligible uses for various reasons. For example, the ultimate use of one item could not be verified; two items were duplicates that had previously been approved; and one item had already been paid by another party. Schedule III presents the proposed payment items that were disapproved.

**Schedule III
Payments Disapproved by USAID/Haiti
Grant No. 521-0253**

PAYEE	AMOUNT	REASON DISAPPROVED
Govt. of Haiti (Treasury Bonds)	\$1,816,167	Lack of documentation of fund use
EXIMBANK	502,150	Previously approved in first review
USAID	478,763	Previously approved in first review
IDB	52,104	Paid by a USAID-funded recipient
IDB	100	Mathematical error
IMF	441,120	Not an actual payment
IDB	48,854	No copy of loan document
Total	\$3,339,258	

Prior to disbursement, USAID/Haiti drafted project implementation letters listing the approved payment items, as well as other procedural requirements for reporting the payments. If the payment amounts were not immediately verifiable, the GOH subsequently furnished USAID/Haiti documentation to support the fact that the payments were in fact made and the actual amounts of the payments. Since the payments approved by the project implementation letters were all based on RIG/San Salvador recommendations, there are no questioned local currency costs.

In addition to the previously mentioned debt items, one additional use of the local currency was proposed by the GOH. The GOH established a training program under which ex-military and ex-policemen would receive civilian vocational training. In order to assist the participants in supporting themselves during the training period, the GOH proposed paying the participants a small monthly stipend. For this program, \$3.2 million was transferred from the special account and placed in another bank for use in paying

the monthly stipends. This aspect of the program is being audited by a public accounting firm contracted by the GOH and is not a part of the scope of this audit.

Management Comments and Our Evaluation

USAID/Haiti stated that the draft report accurately reflected what transpired over the course of the program, but had no specific comments concerning the content of the report.

In addition, USAID/Haiti expressed its appreciation for the support provided by the auditors during the program's implementation.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Haiti's management of funds available for balance of payments support in accordance with generally accepted government auditing standards. We conducted the audit concurrently for the local currency disbursements made from the Government of Haiti (GOH) special account, under USAID/Haiti Grant No. 521-0253 during the period October 20, 1994 to July 26, 1996. This was a concurrent audit in which we audited proposed uses of local currency before the local currency was actually disbursed. Although we made recommendations to USAID/Haiti prior to its taking action, we did not take an active role in the management process.

We audited 100 percent of the proposed uses of the \$45 million equivalent local currency generated under the program except for the stipend program totaling \$3.2 million. For each proposed payment of external debt, we obtained copies of the loan documents, and verified that the loan was not used for prohibited items. In instances where the loan payments had already been made, we verified the amount proposed by the GOH with the notification cables from the international financial institutions (IFIs). In instances where the payments had not been made, we verified the amounts proposed by the GOH with the loan statements prepared by the IFIs, and obtained evidence of payment when the payments were subsequently made, except for the \$4.6 million of grant funds that had not yet been disbursed at the conclusion of our field work.

We did not include the training stipends program in our scope of work. The training stipends program is currently being audited by a local public accounting firm contracted by the GOH under the recipient-contracted audit program. The program is scheduled to end in December 1996 at which time the public accounting firm will issue a separate report.

The scope of the audit was limited to an examination of U.S. dollar disbursements and the verification of proposed uses of the local currency, in addition to the verification of whether the proposed payments were actually made. The scope did not include an examination of the program authorization process, nor the evaluation process under which the impact of the program is measured through the use of performance indicators.

Methodology

We performed audit work at USAID/Haiti's Office of Financial Management, interviewed officials from various sections of that office and from other USAID/Haiti offices as appropriate, and assessed management controls over the uses of local currency and U.S. dollars under the program. We also met with officials from the GOH's Ministry of Finance and the central bank of Haiti, Banque de la Republique d'Haiti.

For deposits to the special account, we reconciled the petroleum purchases, made by USAID on behalf of the GOH, to the local currency deposits into the special account to verify that sufficient local currency was deposited in the special account for the corresponding program U.S. dollar disbursements. We limited our audit work to reconciling the local currency deposits in total. We did not reconcile the individual deposits to the individual petroleum transactions.

For disbursements from the special account, we determined the validity and appropriateness of local currency uses by first obtaining a list of proposed payments from the Government of Haiti's Ministry of Finance. For each proposed payment reviewed, we visited the Ministry of Finance and/or the central bank and verified by examining source documents that each of the proposed items was: (1) an appropriate use under USAID guidance; (2) covered under an approved GOH budget item; (3) evidenced by a legitimate obligation document which existed between the GOH and the other party to the transaction; and, (4) for a purpose other than those that were prohibited by the subject grant and USAID policies and procedures. We also verified that the payments were actually made by reviewing either the actual payment cables to the IFIs or the GOH's general ledger at the central bank. We did not reconcile the proposed payments to the underlying loan documents to determine if the proposed payments were in fact correctly computed. Since the payments were to international financial institutions that we believed were relatively well managed, we relied primarily on their individual control systems to assure ourselves that the payments were correctly computed. We did confirm, however, that the amount that the GOH paid was the amount that the IFI's had billed.

AGENCY FOR INTERNATIONAL DEVELOPMENT

MISSION TO HAITI

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For U.S. MAIL :

USAID/HAITI
Department of State
Washington, D.C. 20521-3400

August 20, 1996

MEMORANDUM

To: Wayne J. Watson RIG/SS

From: Larry Crandall, Director, USAID/Haiti

Subject: Management Comments on USAID/Haiti's Emergency Balance of Payment Support Program No. 521-0253 Draft Audit Report.

USAID/Haiti has reviewed the draft audit report prepared by RIG/SS staff concerning its Emergency Balance of Payment Support Program 521-0253. The draft report accurately reflects what transpired over the course of the program. Therefore, USAID has no specific comments to offer concerning the content of the report.

However, there is one general comment that needs to be made. From USAID/Haiti's perspective, the report demonstrates what can be accomplished when RIG and USAID work together as a team to insure that USAID resources are used in accordance with USAID regulations to further US interests and program objectives. The RIG/SS did an outstanding job in supporting USAID/Haiti's program, often responding on brief notice. We in the Mission appreciate the effort made by the RIG staff and we look forward to continuing working together to identify and correct problems during implementation of our programs so that USAID assistance is more effective in accomplishing its goals and objectives.