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USAID

NON-FEDERAL AUDIT OF DOLLAR TRANSFERS UNDER ZAMBIA AUCTION PROGRAM SUPPORT

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T.D. Morse. Esq.,
Director,
United States Agency for International
Development,
Katunjila Road,
LUSAKA.

4 March 1988

Dear Mr Morse,

NON FEDERAL AUDIT OF DOLLAR TRANSFER
UNDER ZAMBIA AUCTION PROGRAM SUPPORT

We have pleasure in enclosing our final report resulting from the above study. This incorporates the comments discussed at our meeting with your representatives on 24 February 1988.

We wish to thank you for the opportunity to assist USAID and should you have any queries or require further clarification please contact either Paul Ferguson or myself.

Yours sincerely

Mike Cronin
for and on behalf of
COOPERS & LYBRAND ASSOCITES

C&L

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I EXECUTIVE SUMMARY

Introduction

We were invited by USAID to carry out an investigation into the Bank of Zambia's (BOZ) recording and controls surrounding $29m of USAID funds donated to the Zambia Auction Programme Support (ZAPS) and in particular to determine whether a specific amount of $2m was allocated to the Auction Programme. The work was carried out in a three week period in November and December.

101 In this section we summarise our main findings and conclusions subdivided into the following sections.

(a) procedures and controls review findings;

(b) audit investigation findings;

(c) conclusions

Procedures & Controls Review Findings

102 The main findings of our review of the BOZ's procedures and controls surrounding the receipt, recording and disbursement of USAID Auction Funds are as follows:-

(a) a lack of detailed documentation of procedures surrounding ZAPs transactions, leading to a high incidence of errors and general confusion amongst all levels of BOZ staff as to the correct procedures for individual tasks;

(b) a lack of clear accountability and acceptance of responsibility for specific tasks by BOZ staff - this again results primarily from the non existence of documented procedures;

(c) poor quality of BOZ record keeping and filing;

(d) absence of reconciliation of key BOZ accounts other than the Federal Reserve Bank (FRB) account;

(e) for those reconciliations that are undertaken they are not carried out in a timely manner, their results are not widely circulated, and there is no evidence that they are acted upon where required;

(f) lack of evidence of proper BOZ supervision and authorisation of accounting reversals and adjusting entries.

Audit Investigation - Findings

103 The main findings of our audit investigation are as follows:-

(a) USAID ZAPS funding occurred in three tranches:-

$15m for disbursement in auctions 13 to 31 (December 1985 - May 1986)
$ 2m for disbursement in auctions 54 to 57 (October 1986 - November 1986)
$12m for disbursement in two tier auctions 78 to 81 (March 1987 - April 1987)

$29m;

(b) the timely receipt of $17m was verified to the BOZ main account at the FRB. The remaining $12m was paid again on time, into a previously dormant BOZ account at Manufacturers Hanover Trust (Mantrust) in complience with the ZAPs Grant Agreement Ammendement No. 2;

(c) anomolous accounting entries were made in the BOZ accounting records for ZAPS funds intended for auctions 13, 30 and 31. These entries included adjustments and reversals which were, in the case of Auction 13, self cancelling. Entries relating to Auction 30 and 31 had, at the time of our review, not been properly rectified;

(d) reports, generated by the IMF advisor to the Governor, of ZAPS funds utilised were internally inconsistent and do not in all cases correspond with the BOZ accounting records;

(e) transfers of Kwacha counterpart funds into the combination of GRZ/USAID Account (846) and GRZ/ZAPs Account (550) reconcile with the total $29m of ZAPS funds received;

(f) information received as to the determination in advance of the sources and amounts of currency available for the auction is contradictory;

(g) there is no clear relationship between the $17m ZAPS funds deposited in the FRB and currency allocations to commercial banks in the period December 1985 to May 1986.

(h) there is a clear relationship between the $12m ZAPS funds deposited in, and currency allocations to commercial banks from, the Mantrust account. These allocations were made in the period March - May 1987.

Conclusions

104 The main conclusions of our review are as follows:-

(a) the BOZ systems, procedures and controls surrounding the receipt and disbursement of comingled, untied funds, such as ZAPS, were neither adequate nor indeed intended, to establish categorically that these funds entered their respective auctions;

(b) the accounting entries relating to the transfer of Kwacha counterpart funds for $29m are, in all cases, consistent with the dollar receipts having entered the related auctions;

(c) with the exception of the ZAPS funds intended for auctions 30 and 31, the accounting entries relating to the receipt of the ZAPS funds are consistent with those funds having entered the related auctions.

(d) part of the accounting entries relating to the receipt of funds by BOZ intended for auctions 30 and 31 occurred approximately eight months after these auctions were held. Consequently these entries cannot be relied upon to substatiate a total of $2.0m having entered their related auctions.

(e) the conclusions in (c) and (d) certainly reflect the poor standard of bookkeeping and controls. Although there is no doubt that the $2.0m was received the accounting entries of themselves do not provide absolute evidence of the $2.0m having entered, or indeed having not entered the auctions;

(f) the section in the BOZ/MOF reports to USAID stating the source of funds disbursed was derived from donor agreements, rather than any deliberations of the Auction Committee. Therefore these reports cannot be relied upon to substiantiate whether or not these funds entered their respective auctions;

(g) despite repeated requests BOZ has failed to provide evidence of any deliberations of the Auction Committee at which sources and availability of foreign currency for each auction was determined;

(h) BOZ state that detailed evidence is not available because the auction funds were comingled.

II BACKGROUND TO THE STUDY

201 United States Agency for International Development (USAID) provided grants to the Government of the Republic of Zambia (GRZ) in support of the Auction Program. Funds were being channelled through the Zambia Auction Program Support (ZAPS).

202 Prior to our review, a United States Government Accounting Office (GAO) Review Team reviewed the United States Economic Support Funds (ESF) programs in Zambia, including the ZAPS. The GAO review was conducted from 10 through to 28 August 1987 and issues covered included the controls over the ESF programs to ensure funds were used for authorised purposes.

203 The findings of the GAO review revealed that they could not be certain as to the use of $2m of the USAID assistance in support of the GRZ Auction Program due to discrepancies observed in the BOZ accounting records. USAID and BOZ maintain that this uncertainty is due to the comingling of funds, as required for the first $17m of the ZAPS funds.

204 USAID decided to engage Coopers & Lybrand to carry out a further study to verify whether a specific $2 million in question was allocated to the Auction Program. Our study was divided into two distinct parts:-

(i) a brief review of the existing internal controls and systems surrounding the recording and control of ZAPS funds;

(ii) an audit of the dollar transfers under the ZAPS program.

205 Our work was carried out between 20 November and 10 December 1987 and was based on interviews with key BOZ staff and examination of relevant BOZ accounting records. A list of the staff interviewed forms Appendix A.

III DESCRIPTION OF PROCEDURES & CONTROLS

Introduction

301 Details of procedures that existed at the time covered by the review (31 December 1985 - 31 May 1986) during which the funds were being authorised, received and disbursed are given under the following headings:-

1. receipts;
2. disbursements;
3. reconciliations.

Each is covered seperately below.

Receipts

302 The $29m ZAPs funds was made of $17m received via the FRB and $12m received via Manufacturers Hanover Trust. The records and transactions relating to the $12m tranche were verified to our satisfaction, we therefore concentrate our discussion on the procedures and controls relating to the $17m tranche run through the FRB

303 Once an aid agreement has been reached between USAID and the Government of the Republic of Zambia (GRZ) USAID requests the US Treasury to deposit 4 weeks dollar funds into the the Bank of Zambia's (BOZ) account number 7140942, at the Federal Reserve Bank (FRB), New York. The purpose and conditions of the grant are stated in the agreement. The FRB then automatically releases these funds at weekly intervals to BOZ, sends cables to BOZ in Lusaka and separetely advises USAID (Lusaka) of the transfer. USAID will then request the US Treasury to release the next 4 weeks' dollar funds. The cables contain the following details:-

(a) date when funds are deposited;

(b) amount (in US dollars);

(c) source of funds (i.e. USAID).

304 If any of these details are omitted from the cables a clerk in the Bank's Foreign Operations department, responsible for the FRB account, with the verification of a supervisor, drafts a cable to the donor agency requesting them to transmit full details. Any one of the following BOZ cheque signatories should check and authorise cables to be sent:-

(a) Director - Foreign Operations;
(b) Deputy Director - Foreign Operations;
(c) Senior Manager - Foreign Operations;
(d) Manager - Foreign Operations;
(e) Sub- Manager - Foreign Operations;

305 Cables received by BOZ are sent to the office of the Director - Foreign Operations (DFO). The DFO or any one of the other four cheque signatories, will enter the accounting entries to be passed on the face of the cable message. The cables are then sent to the clerk responsible for the FRB Currency Account 623 denominated in U.S. dollars. This account, maintained in Foreign Operations department is then credited with the U.S. dollar value received. The clerk raises the credit and debit entry slips. All entries raised by the clerk are verified against cable instructions and signed by either the sub-manager or manager. Copies of these slips are then forwarded to the accounts office where the following accounting entries to the Kwacha ledgers are made:-

Credit - U.S. Dollar Currency Reserve Account - 1050

Debit - FRB Currency Account - 623

306 There is, for each donor agency, a memorandum account denominated in U.S. dollars in which receipts and disbursements of the donor's foreign exchange funds are recorded. The memorandum account for USAID is 1050-6018 which is a memorandum account of the 1050 Account and is maintained in Foreign Operations. Photocopies of the original FRB cables are sent to a clerk responsible for Account 6018. The clerk credits Account 6018 by the amount of U.S. dollars received from USAID and should file copies of the cables in the USAID file.

307 All FRB original cables are filed in the FRB file in Foreign Operations department.

DISBURSEMENTS

308 The Auction Committee authorises the total amount of U.S. dollars, including the break-down of amounts from each source, spent in every auction though no documentary evidence was provided by the BOZ.

Auction

309 All detailed applications for foreign exchange from commercial banks are received by Wednesday of each auction week. The following officers sit for a preliminary review of applications:-

(a) Secretary - Auction Committee;

(b) 4 BOZ officials from either the Foreign Operations department or Export/Import department.

310 The officers above check that necessary documents are attached to applications. Applications are then sorted into the following categories:-

(a) those supported by proper documentation which are eligible to participate in the auction;

(b) those without all necessary documentation which are not eligible to participate in the auction.

311 The two lists with names of applicants listed in alphabetical order are typed. The Secretary to the Auction Committee checks the typed lists against draft lists to ensure that there are no mistakes. The two lists are then circulated to all members of the full Auction Committee before any deliberations. The following is the full list of members of the Auction Committee:-

1. General Manager (BOZ) - Chairman;

2. Senior Deputy General Manager, External Finance (BOZ) - Vice-Chairman;

3. Deputy General Manager, External Finance (BOZ);

4. Director, Foreign Operations and Budget (BOZ);

5. Senior Undersecretary, Loans and Investments (Ministry of Finance);

6. Undersecretary, Budget (Ministry of Finance);

7. Director, Research (BOZ);

8. IMF Advisor/Representative;

9. Advisor to the Governor (BOZ);

10. Secretary to the Auction Committee (BOZ).

312 The Auction Committee scrutinises the list of participating applicants, compares the amount of available funds to the rank-ordered accumulated bids of the applicants and strikes a week's exchange rate. Based on the strike rate, funds are allocated to successful applicants. The Committee also reviews the list of rejected applicants and ensures that applicants were correctly rejected during the preliminary review.

313 From the participating list the committee draws two lists, successful and unsuccessful applicants. At this stage the list of unsuccessful applicants is consolidated with that of rejected applicants resulting into two lists:-

(a) successful applicants;

(b) rejected/unsuccessful applicants.

Documents for rejected/unsuccessful applicants are returned to commercial banks.

314 The list of successful applicants has the following details written separately for each commercial bank:-

(a) name of applicant;

(b) amount allocated in U.S. Dollars;

(c) total Kwacha amount required to cover U.S. Dollars allocated.

Any errors in the print-outs are reported to the Auction Committee for correction.

315 Initially, when submitting foreign exchange applications, commercial banks write letters authorising BOZ to charge their account with BOZ with the appropriate Kwacha cover. The accounting entries are as follows:-

Debit - Commercial bank's current accounts;

Credit - Commercial bank's auction suspense accounts.

316 All such authorisation letters are received by a Section Officer in Foreign Operations who instructs a clerk to raise entry slips. The Section Officer checks entry slips against authorisation letters from commercial banks and passes them to any of the five cheque signatories in Foreign Operations for signing in readiness for entry in the accounts above which are maintained in the BOZ banking hall. The slips are in triplicate:-

(a) first copy remains with the Section Officer and is kept in the strong-room;

(b) second and third copies go to the banking hall where one copy is filed after entry to the respective accounts and another is sent to the relevant commercial banks together with bank statements.

317 When applications for foreign exchange have been approved BOZ, using the same procedures described in paragraph 315, carries out the following Kwacha entries:-

(a) debit - commercial banks' auction suspense accounts;

credit - commercial banks' current accounts.

These entries are carried out for all applications.

(b) debit - commercial banks' current accounts with Kwacha equivalent to U.S. dollars approved;

credit - commercial banks' auction suspense accounts with Kwacha equivalent to U.S. dollars approved.

These entries are carried out only for successful applications.

318 All entries show single totals for each commercial bank (ie. accounting entries are not subdividend by each applicant but are merely entered as one figure representing the total for each commercial bank).

319 Foreign operations receive letters from the Ministry of Finance requesting BOZ to credit GRZ/USAID Account (846) for counterpart funds with the Kwacha counterpart funds relating to the USAID funds provided for use in the Auction.

On receipt the clerk prepares debit and credit slips copies of which are forwarded to Accounts office who then carry out the following Kwacha entries:-

debit US dollar Currency Reserve Account 1050
credit GRZ/USAID Account 846

Foreign operations meanwhile, on receipt of the MOF demand letter will debit the USAID Memorandum Account 6018 with the dollar value of the transfer. These entries complete the payment of Kwacha counterpart funds.

320 The list of successful applications is then summarised by commercial bank and circulated as follows:-

a) first copy is retained by the Auction Committee;

b) second and third copies are sent to the DFO who retains one copy and sends the other to commercial banks. Each commercial bank is sent only the section relevant to it.

The DFO prepares allocation sheets.

321 By this stage the DFO needs to have the following documents:-

a) allocation sheets;

b) transfer letters from commercial banks specifying location and account numbers of banks to which BOZ transfers the foreign exchange funds allocated;

The allocation sheets are circulated to:-

a)	Governor	-	BOZ;
b)	Deputy Governor	-	BOZ;
c)	General Manager	-	BOZ;
d)	Senior Deputy GM - (External Finance)	-	BOZ;
e)	Deputy General Manager	-	BOZ;
f)	the 5 cheque signatories from Foreign Operations department	-	BOZ.

Each commercial bank is informed, normally by telephone, about its relevant section of the allocation sheets.

322 Based on the allocation sheets and commercial banks' transfer letters the clerk (FRB account) drafts cables instructing FRB to debit the BOZ FRB account and credit the various commercial banks with the amount won in the auction. For every auction, the BOZ account will therefore be debited by the transfers in total to the various commercial banks. The officer supervising the clerk checks cables against allocation sheets and transfer letters. With the Manager's (Foreign Operations) approval, draft cables with one half of the control code maintained by Foreign Operations department, allocation sheets and transfer letters are sent to Administration. Administration puts the other half of the control code on this cable and sends it to Foreign Operations department for onward transmission to FRB. The FRB only transfers funds if both halves of the control code from Administration and Foreign Operations are correct.

323 The DFO's secretary files allocation sheets in an allocation file and transfer letters from commercial banks are filed in each commercial bank's file by the filing section within Foreign Operations department.

324 Once cables are accepted, FRB transfers funds to the various banks as per instructions on cables.

325 The Foreign Operations clerk makes the following entry based on the payment cables:-

Credit - FRB Currency Account 623 (in US Dollars)

The entries are checked by a supervisor and signed by any of the five authorised signatories.

326 This clerk will send copies of the debit and credit slips to the Accounts Office who will make the following entries to the Kwacha ledgers:-

Credit - FRB Currency Account 623 (in Kwacha)
Debit - Commercial Banks Auction Suspense Account

Reconciliations

327 The main reconciliation carried out is between the bank statements of the BOZ FRB Bank Account (7140942) and FRB Currency Ledger Account (623) (in U.S. dollars). The clerk (FRB Account) should reconcile by checking FRB statements against the FRB Currency Ledger. This is carried out monthly and are, in theory, produced prior to the end of following month. Reconciliations should be reviewed and appropriate action (if necessary) taken by a supervisor but this is not regularly done. The monthly reconciliation statements (MRS) between 7140942 and 623 are not circulated to anyone outside the department unless a specific request is made.

328 Reconciliations on other accounts are carried out every month.

IV AUDIT INVESTIGATION RESULTS

Receipt of ZAPS funds in BOZ nostro accounts

401 Receipt of ZAPS funds totalling $17m was satisfactorily verified to bank statements from FRB. Receipt of ZAPS funds totalling $12m was satisfactorily verified to bank statements from Manufacturers Hanover Trust Company (Mantrust)

402 With the exception of $0.5m intended for auction 29, which was transferred late and was added to the transfer for auction 30, the dates of receipt and amounts received in the BOZ nostro accounts corresponded with the auctions for which they were intended.

Accounting entries relating to ZAPS funds in BOZ records

403 We examined the accounting entries relating to receipts of ZAPS funds by vouching to:-

- the debit of the Foreign Operations dollar currency ledger account 623 or 688 for the Mantrust funds as appropriate;

- the debit of the Accounts Department Kwacha currency ledger account 623 or 688 as appropriate;

- the credit of the Accounts Department currency account 1050;

- the 6018 memorandum account was examined but its content not relied upon because we were informed that the original record was missing and that the current record was a reconstrution.

404 The accounting entries relating to the transfer of the counterpart funds were examined by vouching to:-

- the debit of the currency account 1050;

- the credit of the USAID Kwacha counterpart funds account 846 or 550 for the Mantrust funds as appropriate.

405 Because of the system of posting the dollars purchased by commercial banks in total, rather than as identified with specific receipts, we were not able to match specific debits to the 623 dollar and Kwacha currency ledgers with the total currency purchases by commecial banks. However, we were able to reconcile satisfactorily transfers from the Mantrust bank account to the commercial banks with the $12.0m receipts in that account.

406 With the exception of the transactions detailed below and tabulated in Appendix B, we were satisfied that the timing of accounting entries in the BOZ records was consistent with the ZAPS funds having been entered in the related weekly auctions.

Auction 13

407 Whilst $1m was correctly entered in both dollar and kwacha equivalent currency ledgers (account 623), an additional debit amount was posted to suspense (account 1030) on 31 December 1985. A single entry credit to the Kwacha equivalent currency ledger was effected on 15 January 1987 to clear the entry made in that ledger on 31 December 1985. The suspense account entry was cleared on 23 January 1986 by duplication of the original entry in the Kwacha equivalent currency ledger. The entries made in the currency reserve account (1050) are consistent with $1m having entered the auction. In summary therefore there were a number of self cancelling entries and with the final entry on 31 December 1985 the account was a balance.

Auction 30

408 Of the $1.0m cabled to the BOZ FRB account on 28 April 1986 $0.5m was entered in the dollar currency ledger only on 31 December 1986. On 11 June 1986 the Kwacha equivalent of $1.0m was credited to the Currency Reserve account 1050, while, on the same date the Kwacha counterpart funds relating $1.0m were also credited to the GRZ/USAID Account 846. A $0.5m debit in the currency reserve account was entered only on 31 December 1986. The remaining $0.5m does not appear to be recorded nor was it identified as a reconciling item on the bank reconciliation. These accounting entries do not provide any evidence of $1.0m having been entered in auction 30.

Auction 31

409 The $1.0m cabled on 5 May 1986 was debited to the Kwacha equivalent currency ledger only on 31 December 1986. At that time no debit was entered on the dollar currency ledger. The currency reserve account was also credited with the Kwacha equivalent on that date, although the Kwacha counterpart funds had been debited to this account on 11 June 1986. These accounting entries do not provide any evidence of $1.0m having entered auction 31.

410 It should be stressed however there is no evidence that the funds mentioned in para 408 and 409 were not used for their respective auctions or used in a later auction.

Reversals in August 1987

411 In an attempt to rectify certain unrecorded ledger entries, on 28 August 1987 $2.0m was debited to the FRB currency ledger. We were advised that the intention of this entry was to account for $1.0m for auction 13 and $1.0m for auction 31. Given that $1.0m had already been included for auction 13 this ledger then showed that a total of $18.0m had been received whereas the bank statements showed a total of $17.0m. The mirror Kwacha currency ledger and the currency reserve account were also debited and credited respectively with the Kwacha equivalent of the two $1.0m but at apparently arbitrary exchange rates. In the Kwacha currency ledger, therefore, the missing equivalent of $0.5m for auction 30 was not entered, but the equivalents for the two $1.0m for auctions 13 and 31 were duplicated, although at different exchange rates. Again, the effect on the currency reserve account was to duplicate the entries for auctions 13 and 31 although at different exchange rates.

Bank Reconciliations

411 We sighted monthly reconciliations between the Bank of Zambia FRB account and the FRB currency ledger account balances for the period January 1986 to August 1987. However, at the BOZ accounting year end of 31 December, the procedure appears to be to carry out two bank reconciliations. In the first reconciliation, in this case prepared as at 26 December 1986, $0.5m cabled on 14 April 1986 (relates to the amount intended for auction 29 but assumed to be the amount not posted relating to auction 30 cabled on 28 April 1986) and $1.0m cabled on 5 May 1986 are identifiable as reconciling items. In the second reconciliation as at 31 December 1986, reconciling items relating to dollar purchases and sales are aggregated and posted to suspense account leaving only the bank's own unpresented cheques outstanding. At the beginning of the new year this suspense account posting is reversed but only as a single value. Consequently in subsequent reconciliations this detail is lost thereby making ultimate resolution of the reconciling amounts more difficult. We were informed that because of this, these reconciling items were unlikely to be investgated.

Memorandum Account 6018

412 We were informed that the individual maintaining the memorandum 6018 account during the auction period had been dismissed by BOZ for reasons which were not disclosed to us. The individual currently maintaining the account informed us that some of the ledger cards were missing and had been reconstructed by her from MOF letters requesting payment of the Kwacha counterpart funds. She was unable to tell us which of the ledger cards had been reconstructed. We could find no evidence that photocopies of the cables by which the account was originally credited had been retained.

413 The 6018 ledger now shows a total of $27.0m ZAPS funds received and Kwacha counterparts funds paid. We were informed that the $2.0m reversal entry posted on 28 August 1987 had not yet been entered on this ledger. However, we were unable to obtain adequate explanations as to why the full $29.0m had not been debited to memorandum account 6018 from the letters of request received from the Ministry of Finance.

Determination of Funds Available for Auction

414 We were informed by the Assistant Secretary, Loans and Investments at the Ministry of Finance that the Auction Committee met prior to each auction to determine the availability of funds. The Secretary to the Auction Committee informed us that this was not the case. We requested written confirmation from the Secretary to the Auction Committee whether this was the case. Despite repeated requests and follow up we have not yet received this confirmation.

Evidence of the Utilisation of ZAPS Funds in the Auction

415 In the absence of evidence that the funds available for auctioning were predetermined we attempted to identify alternative information on the sourcing of the foreign currency auctioned. The information identified was :-

(i) Minutes from the IMF Advisor to the Governor of the BOZ prepared within two days of each auction

These minutes do not identify the source of the dollars disbursed.

(ii) Letters from the Ministry of Finance to USAID prepared from copies of the IMF Advisor's minutes to the Governor.

The first three of these letters covering auctions 13, 14, and 15 do not indicate the source of the dollars disbursed.

The subsequent letters, including one for auction 29, in which USAID did not participate indicate a split of total disbursements between other donors, GRZ and ZAPS.

We were informed that the information relating to donor funds, including ZAPS, was obtained from donor agreements. Funds provided by GRZ was used as a balancing figure when compiling the letters. Consequently, these letters can not be relied upon to substantiate the sources of funds disbursed.

JD

(iii) A minute from the IMF Advisor dated 14 February 1987 summarising auction disbursements in auctions 1 to 68.

This minute identifies donor funds committed and disbursed. The minute shows $15m committed and disbursed from USAID funds.

The statement attached to the minute, prepared by the IMF advisor, analyses the source of funds for each auction, separately identifying USAID. The statement shows USAID participating in auctions 13 to 22 inclusive at $1.0m, and auctions 23 to 30 inclusive at $0.5m, giving $14.0 in total. Nil amounts are shown for auctions 31 and 54 to 57.

No explanation was given to us of the source of information for this statement

The statement itself shows amounts disbursed which differ from those shown on the minutes in (i) above.

(iv) The Governor's report to the Board of Directors dated 20 March 1987 summarising disbursements of auction related donor funds as at 31 January 1987.

ZAPS funds are shown as $17m.

We were unable to ascertain the source of information for this report.

APPENDIX A

LIST OF STAFF INTERVIEWED

	NAME	JOB TITLE	DEPARTMENT
A.	BANK OF ZAMBIA		
	1. Mr. F. Nyongani	Senior Director	External Finance
	2. Mr. C.M. Sinyangwe	Director	Foreign Operations
	3. Mr. Chabowa	Director	Project Implementation
	4. Mr. M.C. Mtonga	Acting Director	FEMAC
	5. Mr. Chinungu	Deputy Director	Foreign Operations
	6. Mr. G. Chisanga	Acting Manager	Foreign Operations
	7. Mr. P. Malambo	Sub-Manager	Foreign Operations
	8. Mr. A.Mwape	Sub-Manager	Project Implementation
	9. Mr. E. Kalande	Supervisor	Foreign Operations
	10. Mr. F. Mazyambe	Section Officer	Foreign Operations
	11. Mrs R. Tembo	Clerk	Foreign Operations
	12. Mrs J. Somwe	Clerk	Foreign Operations
	13. Mr. J. Simango	Clerk	Foreign Operations
	14. Miss A. Brown	Clerk	Foreign Operations
B.	MINISTRY OF FINANCE		
	15. Mr. B.M. Zimba	Assistant Secretary	Loans & Investments

APPENDIX B

RELEVANT TRANSACTION RELATIONS TO AUCTIONS 13, 30 AND 31

In the interest of clarity we have excluded from the schedule those entries which are not relevant to the points at issue, ie the credits to 623/688 and the debits to comemrcial bank accounts.

SCHEDULE

RELEVANT TRANSACTIONS RELATING TO AUCTIONS 13, 30 AND 31

	FOREIGN DEPARTMENT (US$)				ACCOUNTS DEPARTMENT (KWACHA)									
	CABLE DATE	TRANSACTION DATE	CURRENCY LEDGER CARD 623/688		CURRENCY LEDGER 623/688		CURRENCY RESERVE ACCOUNT 1050		GRZ/USAID COUNTERPART FUNDS 846/550		GENERAL SUSPENSE 1030		COMMERCIAL BANK C/A	
			DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
EXPECTED PATTERN														
- INCOMING $			X		X			X						
- SELL TO COMMERCIAL BANKS (IN TOTAL)				X		X								X
- PAYING KWACHA COUNTERPART							X			X				
AUCTION 13	30.12.85	31.12.85	1		5.7			5.76			5.7			
(Note b)		15.01.86										5.7		
		23.01.86					5.76(a)							
		07.02.86							5.731(a)					
AUCTION 30	28.04.86	11.06.86					7.0(a)		6.965(a)					
(Note c)		31.12.86	0.5											
AUCTION 31	05.05.86	11.06.86					7.030(a)		6.994(a)					
(Note d)		31.12.86			7.030			7.030						
					7.110			7.110						
REVERSALS	28.08.87		2		6.750			6.750						

NOTES

(a) the difference between the debit amounts to 1050 Account and the credit to 846/550 on payment of kwacha counterpart funds is the commission charged by BOZ.

(b) the entries on the suspense account are self cancelling leaving correct entries but posted at different auction rate. The difference is inmaterial.

(c) the debit to the kwacha 623 and the credit to the 1050 could not be indentified on the ledger cards and are therefore absent from the schedule. Only the entries relating to payment of the kwacha counterpart are shown representing $1.0m million.

(d) Again only the kwacha counterpart entries relating to $1.0m are shown. The Debit to 623 Account was never recorded and is therefore excluded from our schedule.

BANK OF ZAMBIA
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Zambia

GOVERNOR'S OFFICE
Tel: 213307/216529
Telex: ZA 42999

08 March 1988

Mr Ted D Morse
Mission Director
United States of America
Agency for International Development
LUSAKA

Dear Mr Morse

Thank you for your letter of 05 January 1988 regarding an audit of USAID Money made available to the Zambia Auction Programme.

Further to our meeting held in my office on 24 February 1988, where a draft statement by the Bank on your Auditors findings on the utilisation of US $2.0 million was reviewed, I enclose the final and official statement by the Bank of Zambia on the matter.

I hope that the GAO will be satisfied with the statement provided and look forward to the final outcome of this Audit from your Government.

Yours sincerely

F X NKHOMA
GOVERNOR

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BANK OF ZAMBIA STATEMENT ON THE FINDINGS BY COOPERS & LYBRAND ON THE UTILISATION OF THE USAID NON-TIED GRANT INTENDED FOR ZAMBIA AUCTION PROGRAMME SUPPORT (ZAPS)

Back Ground

At the advent of the Foreign Exchange Auction System USAID provided the GRZ with a non-tied auction support grant amounting to US $29.0 million, for the auctions 13 through 31 (US $15.0 million), Auctions 54 through 57 (US $2.0 million) and Auctions 02 through to 05 under the Two Tier Auction System (US $12.0 million). The end product of the Zambia Auction Programme Support Funds entering the auction floor was the generation of local currency equivalent which was passed on to GRZ by the Bank of Zambia.

In August 1987, the ZAPS programme was the subject of a review by the US Government Accounting Office Review Team (GAO). The GAO Review Team appears not to have been satisfied as to whether the two releases of $1.0 million each for Auctions 13 and 31 did enter the auction floor in view of the fact that the amounts were not properly picked up in the Bank of Zambia accounting records on the dates that these funds were deposited into the Bank of Zambia Account (31 December 1985 and 05 May 1986, respectively).

Due to the doubts raised by the GAO Review Team, Coopers and Lybrand were contracted by USAID to also review the accounting aspect of US assistance through the auction programme. Their findings were more or less identical to GAO findings except that whereas the GAO questioned the funds meant for auctions 13 and 31, the auditors who performed a more detailed review of the BOZ records found some documentation to show that funds intended for Auction 13 were accounted for in the BOZ records in time for Auction 13. The auditors reported instead that there was no evidence found during their review which showed that funds intended for Auction 30 and 31 actually entered the respective auctions due to BOZ's failure to record the deposit of the $2.0 million in their official accounting records on 28 April 1986 and 05 May 1986, respectively.

While the BOZ admits their failure to bring $2.0 million on their accounting records in good time, the following statements are made to describe the BOZ internal process and provide relevant information to vouch the use of the $2.0 million as authorised by USAID.

Independent from the entries made by the BOZ Accounts Department and the Foreign Operations Department in their official records, a daily cash position is prepared by the Foreign Operations Department for its foreign exchange account with the Federal Reserve Bank (FRB) in New York. This report is based on the daily information from the FRB on the deposits made into BOZ foreign exchange account and

the withdrawals based on the daily allocation sheet. The balance in the foreign exchange daily cash position report and the Bank's knowledge of the availability of the foreign donors' funds formed the basis of the decision made during informal discussions by the Auction Committee as to the amount to be auctioned.

Being a non-tied grant, the BOZ did not specifically identify the winning bidders to whom the $2.0 million were paid. Bank of Zambia felt it adequate to know the sources of foreign exchange available during the time of Auctions 30 and 31 to vouch and certify that the $2.0 million were in fact disbursed in Auctions 30 and 31. As reported to you by the Ministry of Finance, a total of $6.45 million were disbursed in Auction 30 on 05 May 1986, $1.0 million of which were provided by USAID, $4.47 million by other foreign donors and $0.98 million by the GRZ out of its foreign exchange revenues. In Auction 31, $7.57 million were disbursed on 12 May 1986, $1.0 million of which were provided by USAID, $3.68 million by other foreign donors and $2.89 million by the GRZ.

The fact of the use of the $2.0 million in Auction 30 and 31 is further confirmed by the letter from the Ministry of Finance (MF/L & I/IN/GEN/098) dated 27 May 1986, instructing Bank of Zambia to credit the Kwacha counterpart of these funds to their account No. 846.

Conclusion

The Bank's utilisation of USAID funds had been consistent right from the start and it would be inconceivable that due to the timing difference in the booking of these funds in Bank of Zambia books, that the funds were misused and never entered in the Auction floor as evidenced by our exposition above.

FOR AND ON BEHALF OF BANK OF ZAMBIA

F X NKHOMA
GOVERNOR

REPORT OF USAID/ZAMBIA'S ANALYSIS AND POSITION ON THE USE OF $2.0 MILLION UNDER THE ZAMBIA AUCTION PROGRAM SUPPORT (ZAPS) PROGRAM

The following is the report on our analysis of the issue raised in the GAO exit paper regarding the $2.0 million ZAPS funds, based on their review of Economic Support Funds (ESF) programs in August, 1987. This report includes the chronology of events and circumstances surrounding the issue, followed by USAID/Zambia's analysis and position on the matter.

I. GAO REVIEW AND FINDINGS

A. In August, 1987 a GAO Review Team from Frankfurt, Germany reviewed the United States Economic Support Fund (ESF) programs in Zambia, one of them being the Zambia Auction Program Support (ZAPS) Program. The ZAPS Program involved a non-tied cash transfer of $29,215,000 to assist the Government of the Republic of Zambia (GRZ) in meeting its immediate balance of payments requirements and to support the GRZ's auction program. For these purposes, the U.S. Treasury made disbursements for the GRZ's auctions 13 through 31 ($15.0 million), auctions 54 through 57 ($2.0 million) and auctions 02 through 05 under the two-tier auction system ($12.0 million). $215,000 was not disbursed and is still held by the U.S. Government.

B. The ZAPS Program generated local currency equal to the proceeds accruing to the grantee from the sale or the auction of funds provided under the grant. These local currency generations, also known as counterpart funds, are deposited in the special accounts and are available for joint programming by USAID/Zambia and the GRZ in support of the productive sectors of the grantee's budget, and for other mutually agreed-upon purposes.

C. The GAO's review of the ZAPS Program included, among other things, the controls over ESF assistance to ensure the use of funds for authorized purposes.

D. The exit paper prepared by the GAO Review Team for their review contained, among other items, questions regarding the use of the $2.0 million ZAPS dollar funds in two of the GRZ's auctions. The questions were raised due to discrepancies noted in the accounting records of the Bank of Zambia (BOZ), which was the Government of the Republic of Zambia (GRZ) administrator of auction funds.

E. The logical question of their finding was, "How can funds be used in the auctions for which they were intended when the receipts of funds were not acknowledged in the BOZ records in the first place?" However, the GAO Review Team also stated that there was no evidence of any misuse of the funds.

II. DETAILED REVIEW OF BOZ RECORDS BY LOCAL ACCOUNTING FIRM

A. As a result of the GAO's findings, USAID/Zambia contracted the services of the local office of an international accounting firm (Coopers and Lybrand Associates) to conduct a detailed review of BOZ records pertaining to USAID's contributions to the GRZ auction program.

B. In their report, the accounting firm confirmed the issue raised in the GAO exit paper, whereby $2.0 million out of the $29.0 million grant funds was not properly recorded in time for the auctions for which it was intended.

C. While during the GAO review the $1.0 million for auction 13 did not seem to have been properly accounted for, during the detailed review by the local accounting firm, additional documentation was found which showed the timely accounting of the auction 13 contribution by USAID in the BOZ records.

D. Both the GAO and the local accounting firm questioned the utilization of USAID's contribution to auction 31 due to failure of the BOZ to record the deposit made on May 5, 1986 in time for auction 31.

E. Further review of BOZ records revealed that the $1.0 million released for auction 30 instead of 13 was not accounted for in the BOZ records in a proper and timely manner. $0.5 million out of the $1.0 million deposited on April 28, 1986 for auction 30 was recorded on December 31, 1986 while the remaining $0.5 million remained unrecorded up to the time of the review by the local firm. The deposit of $1.0 million on May 5, 1986 for auction 31 was acknowledged in the BOZ records only on December 31, 1986.

F. After their review, the local auditors reported some weaknesses in the BOZ's accounting systems and procedures, and the resulting confusion and inefficiency of these weaknesses on some of its staff.

G. From the local auditors' initial findings and meetings with USAID to report on their findings, it was concluded that the discrepancies in the recording of USAID assistance resulted from the inefficiency in the BOZ's accounting and internal control systems. While the BOZ did receive the notice of the Federal Reserve Bank in New York on the deposit of dollars into the BOZ Federal Reserve Bank account for auctions 30 ($1.0 million) and 31 ($1.0 million), these notices were not recorded by the staff concerned in the accounting books of BOZ.

H. Monthly bank reconciliations were not prepared regularly, which could have "caught" the unrecorded deposits of $2.0 million for auctions 30 and 31.

I. While the responsible BOZ officials were monitoring the auction system, this process apparently was not fully linked to the BOZ's official accounting records.

J. The local auditors also received conflicting information on the U.S. contribution to auctions 13 through 31, and 54 through 57. While a report prepared by an IMF advisor reported a total USAID assistance of $15.0 million for all these auctions, the Governor of the Bank of Zambia reported a total figure of $17.0 million. Neither of these reports could be traced to their sources of information.

K. While the local auditors highlighted the weaknesses of the BOZ accounting systems and records in their report, they also pointed out that no evidence were found to raise any suspicion that the $2.0 million were not used in auctions 30 and 31.

III. BOZ'S STATEMENT ON THE ISSUE

A. The Bank of Zambia acknowledged their failure to record the deposit of $1.0 million for auction 30 and $1.0 million for auction 31 in their books in time for the auctions for which these funds were intended. No explanation could be obtained to explain this error other than inefficiencies in their accounting and internal control systems.

B. In their official statement on the review findings, the BOZ declared that while their official accounting records did not reflect the proper and timely recording of the $2.0 million deposit for auctions 30 and 31, as a matter of practice, the Bank uses other sources of information in accounting for foreign exchange to be sold in the auction. This information comes in the form of a daily cash position report prepared by the Foreign Operations Branch of the BOZ on the foreign exchange balance in their account with the Federal Reserve Bank in New York. The basis of the report is the first hand information received from the Federal Reserve Bank in the form of telexes for deposits made into their account, and their payment schedules for withdrawals from the account. The BOZ claimed that the amount of foreign exchange to be auctioned was not taken from the accounting records maintained in the Accounts Department of the BOZ where all the discrepancies and erroneous entries were noted.

C. The BOZ also declared that because of the non-tied nature of the USAID contribution to the auction, no separate records were maintained to account for the bidders paid out of USAID funds. The only subsidiary records maintained by BOZ for USAID assistance is the trust account coded accordingly. This account is credited for deposits made by the U.S. Treasury to the BOZ Federal Reserve Bank account in New York and is debited for the deposit of counterpart funds into the Ministry of Finance's special account with the BOZ.

D. The Program Grant Agreement required the deposit of local currency or counterpart funds in the MOF's special accounts with the BOZ for dollar funds used in the auction. Hence, while the BOZ accounting records failed to prove the use of $2.0 million ZAPS funds in auctions 30 and 31, the deposit of counterpart funds corresponding to the value of $2.0 million for auctions 30 and 31 implied the use of money as authorized by the U.S. Government.

E. Finally, in their letter to USAID, BOZ claimed that their knowledge of the sources of foreign exchange available during the time of auctions 30 and 31 was adequate to vouch and certify that the $2.0 million was in fact disbursed in auctions 30 and 31, and that the discrepancies in their accounting records did not provide a sufficient basis for concluding that the $2.0 million was misused and never entered the auction.

IV. USAID/ZAMBIA'S ANALYSIS AND POSITION ON THE ISSUE

A. A series of meetings were held by USAID/Zambia with the local auditors to discuss their findings, and with the BOZ senior officials, to obtain explanations for the findings. These meetings were held both individually and jointly with the two parties concerned.

B. Detailed and careful analysis of the report and the statements made by the BOZ on the findings in the report were made by our Mission internally, and with the local accounting firm and the BOZ officials. Requirements in the Grant Agreement signed by USAID with the GRZ were likewise reviewed for the conditions and covenants of the grant.

C. The details of our analysis are presented below:

(1) While the timely and accurate recording of the BOZ financial transactions, including the $2.0 million USAID assistance in question, is a requirement in an efficient accounting system, the failure to record the deposit of the $2.0 million in a timely fashion was a fact discovered by the GAO Review Team and confirmed by the independent local auditors.

(2) The facts and findings in both the GAO's and the independent auditors' reports did not contain any statements that funds were used for other than authorized purposes. The only question raised was the timely recording of $2.0 million dollar deposits in the BOZ account to irrefutably prove that these funds were actually used in the auction.

(3) As we understand from the BOZ's explanation, the auction records and information were not fully linked to the BOZ's accounting records. Hence, the inaccuracy of the BOZ's accounting records did not necessarily render the auction reports received by USAID from the GRZ inaccurate.

(4) Although important, the accuracy of the BOZ's accounting records was not the primary concern of the Grant, but the use of funds in the auction. Prior to the release of funds for a particular auction, a report was required from the GRZ on the use of funds previously released. This report has been submitted by the GRZ to USAID regularly, as required in the agreement.

(5) Our Mission was aware that due to the non-tied nature of the grant, funds would be commingled with the other foreign exchange resources of the GRZ and that identification of disbursements to the winning bidders would not be possible. Our Mission used the regular reports received from the GRZ in monitoring end-use of the assistance. The reports contained adequate information used in our management of the program, in addition to close coordination with the GRZ counterpart officials.

(6) As explained by the Bank of Zambia in their letter to USAID, the deposit of ZAPS funds into the BOZ Federal Reserve Bank account increased the BOZ foreign exchange balance per their daily cash position report. Regardless of whether or not the deposit was recorded in the BOZ accounting records, the USAID contribution became part of the cash balance which the Auction Committee used as a basis in determining the amount to be auctioned.

(7) From the weekly auction reports of the Ministry of Finance to USAID for auctions 30 and 31, the USAID contributions were less than the total amount auctioned and disbursed to the winning bidders. In both cases, the GRZ contributed part of its own foreign exchange earnings into the auction.

(8) For auction 30 held on May 3, 1986, the MOF reported in its letter to USAID dated May 13, 1986 that $6.45 million was disbursed to the winning bidders, $4.47 million of which was provided by other donors, $0.98 million by the GRZ, and $1.0 million by the USAID ZAPS Program.

(9) For auction 31 held on May 10, 1986, the MOF reported to USAID in its letter of June 2, 1986, that $7.57 million was disbursed to the winning bidders, $3.68 million of which was provided by other donors, $2.89 million by the GRZ, and $1.0 million by the USAID ZAPS Program.

D. To summarize our analysis -

(1) Based on Federal Reserve Bank transfer reports, weekly dollar use reports, counterpart deposit reports, public records that more than the U.S. amounts were being auctioned, and close project management, USAID believed during the project, and believes now, that all ZAPS funds were auctioned (except $215,000.00 which was not used before the auction was cancelled).

(2) Recognizing that commingling of U.S. funds with other donors and the GRZ was necessary to achieve "untying" of U.S. funds critical to a free market auction, the BOZ/MOF accounting system was strong enough to properly account for these funds if operated properly.

(3) The accounting system operated accurately in 24 of the 26 auctions in which U.S. participated, but there were partial lapses in accuracy in some of the eight (8) steps in two auctions.

(4) Despite this partial negligence in two of the auctions, there is ample evidence to show that all of ZAPS funds entered auctions.

(5) Lesson learned: Commingling of untied balance of payment assistance does not provide the degree of end-use identification and accounting now required by U.S. legislation. However, the establishment of separate accounts for cash transfers as implemented in the final $12.0 million of the ZAPS Program allowed end-use identification and accountability, while providing untied balance of payment support.

E. Based on the foregoing presentation, USAID/Zambia strongly recommends that the issue on this matter be closed. While we recognize that the issuance of a Bill of Collection for the amount in question is a possible option, we feel that the U.S. Government does not have a strong justification for this action, nor does it have a concrete basis for requesting a refund of the assistance. We acknowledge the lesson we have learned from this program. The USG must continue to modify its program requirements, as it is doing, to achieve both the goal of the assistance and accountability requirements of the Government.

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DRFTD: AID:TEPUMA:ALS
CLEAR: AVR ADM
DISTR: AMB DCM
ADMIN CHRON

ADM AID

FRANKFURT FOR GAO
NAIROBI FOR RIG/A/N (R. THABET)

E.O. 12356 N/A
SUBJECT: REVIEW REPORT ON THE USE OF DOLS 2.0 MILLION UNDER THE ZAMBIA AUCTION PROGRAM SUPPORT (ZAPS) PROGRAM, NO. 611-0757

1. THE FINAL REPORT ON THE DETAILED SUBJECT REVIEW, CONDUCTED BY AN INDEPENDENT LOCAL ACCOUNTING FIRM FOR THREE WEEKS IN NOVEMBER/DECEMBER, 1987, HAS BEEN RECEIVED BY OUR MISSION.

2. THE REPORT HAS BEEN REVIEWED, ANALYZED AND DISCUSSED BY OUR MISSION INTERNALLY, AND WITH THE INDEPENDENT AUDITORS AND THE BANK OF ZAMBIA OFFICIALS.

3. BASED ON THESE ANALYSES AND DISCUSSIONS, MISSION STRONGLY FEELS THAT THE DOLS 2.0 MILLION IN QUESTION WAS USED AS AUTHORIZED IN THE AUCTION. WE ARE CURRENTLY FINALIZING A REPORT DESCRIBING THE CHRONOLOGY OF EVENTS AND OUR POSITION ON THE SUBJECT. WE WILL FORWARD THE REPORT TO THE ADDRESSEES, TOGETHER WITH A COPY OF THE FINAL REPORT OF THE INDEPENDENT AUDITOR, AND THE STATEMENT OF THE BANK OF ZAMBIA ON THE FINDINGS, AS SOON AS POSSIBLE. HARE
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