

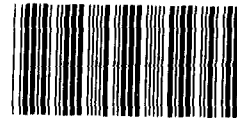
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Briefing Report to the Honorable
Edward M. Kennedy, U.S. Senate

February 1987

LIBERIA

Problems in Accountability and Control Over U.S. Assistance



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-226281

February 13, 1987

The Honorable Edward M. Kennedy
United States Senate

Dear Senator Kennedy:

On June 18, 1986, you asked us to review the U.S. assistance program in Liberia since 1980. Specifically, you asked (1) whether there was any evidence of misuse or diversion of U.S. assistance and (2) whether accountability of and controls over U.S. assistance were adequate. As requested, this briefing report provides an advance summary of our major findings and conclusions. A more detailed report will be provided in April 1987.

During fiscal years 1980-86, the United States provided approximately \$434 million in assistance to Liberia--about \$200 million in Economic Support Funds (ESF), \$85 million in Public Law (P.L.) 480 food aid, \$83 million in development assistance, and \$66 million in military assistance. The economic, development, and food assistance was administered by the Agency for International Development (AID); military assistance was administered by the U.S. Military Mission to Liberia. The purpose of the assistance, which has increased substantially since 1980, was to promote economic growth and political stability in a country that has been a long-standing friend of the United States. In addition, the United States has foreign policy and strategic interests in Liberia.

We analyzed information and held discussions with key officials in Washington, D.C., and in Liberia. We visited Liberia in September and October 1986, and met with representatives of responsible U.S. agencies, the host country, and other donors.

U.S. economic and food assistance to Liberia has faced a high risk of diversion and/or misuse since 1980. The

Government of Liberia (GOL) has not established a fiscal and economic policy environment favorable to donor assistance, nor has it established an adequate level of accountability for development programs. We also believe that the United States has (1) established sufficient controls over most of its assistance to Liberia only in the last few years and (2) been reluctant, for foreign policy reasons, to enforce certain conditions designed to promote fiscal and economic reforms.

We found the following evidence that U.S. controls over assistance were inadequate and, in some instances, assistance was not used for its intended purposes.

- P.L. 480 commodities and counterpart funds generated from the sale of those commodities were misused by the GOL agent responsible for rice sales during the fiscal year 1983-84 time period, which contributed to a shortfall in the counterpart fund accounts totaling approximately \$16.5 million as of March 1985.
- The GOL was not in full compliance with the fiscal year 1986 P.L. 480 agreement in that (1) it had not made back payments totaling \$3.9 million owed to the special accounts for the fiscal years 1983-84 shortfall, (2) the government owned bank managing the counterpart fund accounts made (without authorization) withdrawals of approximately \$1.7 million from the fiscal year 1986 special account, and (3) disbursements were being made from the fiscal year 1986 special account without AID's concurrence.
- The ESF program during fiscal years 1980-84 encountered a number of control problems, including instances of the GOL utilizing ESF grants for purposes and in amounts other than those mutually agreed upon with AID. Specific control problems included (1) the GOL's failure to establish special accounts for use of initial grant funds as required, and the use of \$12 million in ESF grants to purchase offshore oil even though grant agreements had earmarked the funds for the support of specific development ministries; (2) difficulties in accounting for and reporting on over \$50 million in counterpart funds; and (3) other instances of the GOL not complying with payment agreements.

As a result of these conditions, the AID mission has had to continually revise and tighten controls over economic and food assistance funds. In our opinion, the controls that were put in place for the fiscal years 1985-86 ESF cash transfers are generally adequate to ensure that the funds will be used for the purposes intended. We feel, however, that although improvements have been made in the P.L. 480 program, further actions are needed to protect funds generated from the sale of commodities. These actions include tightening controls over receipts and disbursements of counterpart funds.

AID mission officials said that development assistance funds have been less vulnerable to misuse or diversion because the AID mission has avoided disbursing much of these funds through the Liberian government or local Liberian institutions. However, the effectiveness of AID's development assistance projects has been limited because the GOL has not always met its counterpart funding requirements. Liberia's problems in this area can be attributed to both its lack of financial liquidity and its mismanagement and misuse of funds in the P.L. 480 special accounts, which are intended for the support of development projects. Some projects we reviewed were adversely affected by the lack of counterpart funds.

The majority of the military assistance funds provided to Liberia has been for the construction of new military housing. We found that housing units were constructed under the direct monitoring of U.S. military personnel in Liberia. We did not find any evidence of misuse in this program; however, we question whether there were systematic controls over contract administration during fiscal years 1981-84 when the GOL handled the awarding of construction contracts in this program.

Beginning in 1985, the U.S. Army Corps of Engineers assumed responsibility for administering the housing construction contracts, to include evaluating bids and awarding contracts. This change became necessary when U.S. Department of Defense officials determined that the United States must be a direct party to all contracts funded with military assistance program grants. By fiscal year 1984 these grants had fully replaced foreign military sales credits as the program's funding source. Our analysis indicated that the Corps of Engineers had a systematic procedure for ensuring the reasonableness of

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contract costs. We could not determine if systematic procedures for cost control were in place during GOL administration of the contracts. We noted that costs for some comparable contracts were lower by as much as 26 percent when the Corps of Engineers oversaw the program.

We did not obtain formal agency comments on this briefing report. However, issues in it were discussed with officials of AID and the Department of Defense, and we have incorporated their suggestions where appropriate. We conducted our work in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from its date. At that time we will send copies to appropriate Congressional Committees; the Director, Office of Management and Budget; the Administrator of AID; the Secretaries of State and Defense; and other interested parties.

Our forthcoming report will discuss these issues in greater detail, as well as the actions we believe are needed to improve the operation of the U.S. assistance program.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

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