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

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LIBERIA

Need to Improve Accountability and Control Over U.S. Assistance

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GAO

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National Security and
International Affairs Division

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The Honorable Edward M. Kennedy
United States Senate

Dear Senator Kennedy:

In response to your letter of June 18, 1986, and based on subsequent discussions with your office, we examined the U.S. economic, food, and security assistance programs to Liberia since 1980 to determine whether controls over U.S. funds are adequate. The programs we reviewed included the Economic Support Fund (ESF), Development Assistance (DA), Public Law (P.L.) 480 Title I food aid, and the barracks construction component of military assistance. Our analysis did not cover Peace Corps programs, the International Military Education and Training program, or the nonconstruction elements of military assistance. This report provides a more detailed discussion of the issues presented in our February 13, 1987, briefing report entitled Liberia: Problems in Accountability and Control Over U.S. Assistance (GAO/NSIAD-87-86BR). The results of our work are summarized below; more detailed information is in appendixes I through IV.

From fiscal years 1980 through 1986, the United States provided approximately $434 million in assistance to the government of Liberia—ESF ($200 million), DA ($83 million), P.L. 480 food aid ($85 million), and military assistance ($66 million). An important element of the P.L. 480 program, as well as portions of the ESF program, in the early 1980s was to require the Liberian government to establish two types of special counterpart accounts—one for funds generated from P.L. 480 rice sales and the other for matching Liberian dollar deposits required for ESF cash transfers. The counterpart requirement for ESF began with the grant agreement signed in May 1981 and was discontinued in January 1983. The purpose of the accounts was to support mutually agreed upon development activities. The economic, development, and food assistance programs are administered by the Agency for International Development (AID). The military housing construction program was initially managed by the Department of Defense (DOD) U.S. Army Security Assistance Center and subsequently by the Corps of Engineers beginning in 1985. The program was overseen in-country by DOD's Military Mission to Liberia.

Excluding the Peace Corps, U.S. assistance to the Liberian government increased from about $24 million in 1980, when the Liberian military staged a coup and assumed control of the government, to about $78 million in fiscal year 1985. Assistance programmed for fiscal year 1986 was approximately $59 million. The goals of U.S. foreign policy since the changeover in government have been to promote economic growth and stability and to encourage the resumption of an elected, civilian-controlled government. The political considerations underlying such goals include (1) a large concentration of U.S. government assets in Liberia, such as a diplomatic communications center and Voice of America transmission and relay stations; (2) U.S. access to strategically located port and airfield facilities in the country; and (3) moderate, pro-Western positions by the Liberian government on international issues.

Food and ESF Assistance

P.L. 480 food and ESF assistance to Liberia has faced a high risk of diversion and/or misuse since 1980. The Liberian government has not established fiscal and economic policies favorable to donor assistance, nor has it established an adequate level of accountability for development programs. The United States has improved its controls over most of its assistance to Liberia in the last few years, but has been reluctant, for foreign policy reasons, to enforce certain conditions designed to promote fiscal and economic reforms. For example, in late 1984 and early 1985, ESF was disbursed in an effort to promote presidential and legislative elections in the country, even though conditions designed to promote accountability and fiscal discipline were not fully met.

P.L. 480 Food Assistance

P.L. 480 rice and counterpart funds generated from rice sales were misused by the Liberian government agent (the Liberia Produce Marketing Corporation) responsible for rice sales. Serious problems became evident in fiscal years 1983 and 1984. Misuse included (1) providing rice without payment to Liberian officials, ministries, and other public corporations and (2) using counterpart funds to purchase local commodities and for other unauthorized purposes. This unauthorized use contributed to a shortfall in the counterpart fund accounts of approximately $16.5 million as of March 1985. Details concerning misuse of P.L. 480 commodities and counterpart funds, which are classified, were provided to you separately.

Because the P.L. 480 program was experiencing such serious problems in fiscal years 1983 and 1984, the AID Mission delayed signing the fiscal year 1985 agreement and reduced the amount of rice provided. An AID Inspector General audit was also requested by the AID Mission in Liberia. The 1985 audit reported a number of program deficiencies, including the counterpart fund shortfall. The AID Mission initiated several program management improvements, including strengthened country-to-country agreements and closer monitoring of rice sales activities. AID officials stated that they had no major problems with the fiscal year 1985 P.L. 480 program.

However, the program again experienced management problems in 1986. At the time of our visit to Liberia in September-October 1986, the Liberian government was not complying with several provisions of the fiscal year 1986 P.L. 480 agreement. Specifically, (1) it had not made two payments of approximately $1.9 million each that it owed to the special accounts from the fiscal years 1983-84 shortfall; (2) the government-owned bank managing the counterpart fund accounts, the Agriculture and Cooperative Development Bank, had made unauthorized and undocumented withdrawals of approximately $1.7 million from the fiscal year 1986 account; and (3) it had disbursed funds from the fiscal year 1986 account without AID's concurrence on which projects were to receive funding. The importance of well managed P.L. 480 counterpart funds is underscored by the fact that Liberia's development budget has consisted almost entirely of P.L. 480 sales proceeds since 1985.

Subsequent to our fieldwork in Liberia, AID reported that the Liberian government provided $1.9 million in delinquent payments owed to the prior year P.L. 480 accounts. However, the government still has an unpaid balance of $3.9 million—which, according to AID, is expected to be rescheduled as part of the fiscal year 1987 P.L. 480 agreement. The AID Mission characterized the violations of the fiscal year 1986 P.L. 480 agreement as representing a general decline in accountability by the Liberian government. The Mission said that actions were taken to resolve the violations involving the unauthorized withdrawals of $1.7 million. After completion of our fieldwork, AID reported that the Liberian government and the Mission reached agreement on which projects are to receive P.L. 480 counterpart funding.

Economic Support Fund

During the early 1980s, the ESF program experienced a number of control and compliance problems, including instances of the Liberian government using ESF grants for purposes and in amounts other than those mutually agreed upon with AID. Specific control problems included the Liberian government's (1) failure to establish special accounts for initial grant funds, as required; (2) use of $12 million in initial ESF grants to purchase offshore oil even though grant agreements had designated the funds for the support of specific development ministries; (3) difficulties in accounting for and accurately reporting on over $50 million in counterpart funds, including several million dollars that AID expected to be generated from the sale of oil on the local market by the Liberia Petroleum Refining Corporation; and (4) failure to comply with debt payment agreements in some instances. These problems were encountered during implementation of the first five ESF grants (fiscal years 1980-83). Appendix II provides a complete listing of the ESF grants provided to Liberia from fiscal years 1980 to 1986.

AID records indicate that its Liberia Mission was under a great deal of pressure from the U.S. Embassy to quickly provide large amounts of ESF assistance to the new Liberian government in an effort to promote economic and political stability. We believe that the urgency to disburse ESF funds contributed to some of the control problems encountered in the initial programs. Other factors contributing to control problems in the early ESF program included the general inexperience of the new Liberian government, poor budget and expenditure controls in existing Liberian institutions, and a general lack of financial administration. Although several problems were apparent in controls over initial ESF, AID did not audit the program because of competing priorities for audit coverage in other countries. AID had scheduled an audit in the first half of fiscal year 1987 but cancelled its plans because of our work.

To strengthen its control over ESF, AID now requires ESF cash transfer grants to be disbursed to approved external accounts to pay specific debts—a measure designed to help preclude misuse of funds. AID began using ESF exclusively to pay Liberian debts in January 1983. However, AID had to institute tighter disbursement controls in subsequent agreements because Liberia used some of the ESF for unauthorized purposes. Our analysis of the most recent grants indicates that AID controls over fiscal years 1985 and 1986 ESF grants were adequate.

Although substantial amounts of ESF have been used for debt relief, the Liberian debt situation has worsened. The Liberian economy now faces extremely serious problems, and the government has been unwilling to make critical policy changes that are necessary to strengthen fiscal and financial accountability.

AID officials said that because Liberia has failed to control expenditures and revenues and meet specific disbursement conditions, they have notified Liberian officials that $5.2 million of the $10.2 million in obligated but undisbursed fiscal year 1986 ESF funds will not be provided. The remaining $5 million is being withheld for possible future use in Liberia when and if conditions precedent to disbursement are met. Key conditions that the Liberian government has not met include (1) contracting for audits of the Liberia Produce Marketing Corporation and the Liberia Petroleum Refining Corporation and (2) using at least 30 percent of its monthly offshore revenues to meet the government's debt obligations.

AID has been considering options for a possible change in the use of ESF to help Liberia deal with its mounting economic crisis. According to AID officials in Liberia, possible options include ESF-financed commodity imports and project assistance instead of cash transfers. We believe special attention would be needed to ensure that adequate financial controls are in place both before and during implementation of such programs. Controls should ensure that Liberian government agencies responsible for program operations have an adequate accounting capability and that the United States has the right to verify financial transactions through on-site monitoring, reports, and periodic audits.

Development Assistance

AID Mission officials said that development assistance funds have been less vulnerable to misuse or diversion because the AID Mission has avoided disbursing most of these funds through the Liberian government. However, the effectiveness of AID's development assistance projects has been limited because the Liberian government has not always met its counterpart funding requirements under the projects' financial plans. As a result, some projects have been delayed and/or scaled back in scope.

Liberia's problems in providing its share of agreed upon support to development projects can be initially attributed to its worsening economic situation, which led the Liberian government to reduce its overall budget in order to comply with targets established by the International Monetary Fund. According to AID, Liberia was not able to contribute its own resources to development beginning in 1985 because of deteriorated economic conditions, and P.L. 480 became the sole source of local financing for projects. The mismanagement and misuse of funds in the P.L. 480 special accounts, which were intended to support development projects, directly reduced the effectiveness of AID projects. According to U.S. Treasury Department staff, many of the World Bank's Liberian projects experienced similar problems due to Liberia government failure to meet its counterpart funding obligations.

Military Assistance

From fiscal years 1980 to 1986 the United States provided over $66 million in military assistance to Liberia—primarily in the form of Foreign Military Sales (FMS) loans and Military Assistance Program (MAP) grants. At the Liberian government's request, the United States has channeled approximately $38 million in assistance to a multi-year military housing construction program, which was essentially completed during fiscal year 1986. Other military assistance has been provided for a variety of purposes, including training in technical skills and procurement of arms and equipment.

DOD records, both in the United States and in Liberia, were incomplete. However, there was a fundamental control issue during fiscal years 1981-84 when the Liberian government awarded the construction contracts in this program. Specifically, DOD authorities had mistakenly allowed the Liberian government to enter into a series of contracts with Liberian vendors and contractors contrary to applicable U.S. law and DOD procedures for disbursing MAP funds used to pay for defense articles or services under the FMS program. Such funds are not to be disbursed unless the United States government is a direct party to all contracts. DOD corrected this problem in 1985 when the U.S. Army Corps of Engineers assumed responsibility for administering the housing construction contracts, including the evaluation of bids and award of contracts. Our analysis indicated that the Corps of Engineers had a systematic procedure for ensuring the reasonableness of contract costs. Because of limitations on information prior to the Corps' involvement, we could not determine if systematic procedures for cost control were in place during the Liberian government's administration of the contracts. Available records indicated that costs for some comparable contracts were lower by as much as 26 percent when the Corps oversaw the program. However, the records were insufficient for us to determine the reasons for the cost difference.

Conclusions

ESF and food assistance programs in Liberia have encountered several control problems, including non-compliance by the Liberian government with established assistance agreements, and, in some instances, misuse of U.S. assistance. The most serious control problems occurred in the early 1980s, and AID has taken several steps to improve overall accountability.

Based on corrective actions recommended by the AID Inspector General, AID's system for control over P.L. 480 has been strengthened in recent years. However, additional actions are needed to address the compliance and control problems found in the fiscal year 1986 P.L. 480 program. If the Liberian government does not fully abide by the P.L. 480 agreement, the program's counterpart funds cannot help meet critical development objectives. Due to the liquidity crisis in the country, counterpart funds held in Liberian government-controlled banks are subject to a high risk of misuse. Because of the unusual problems with the allocation of counterpart funds, we believe stringent controls are needed, such as AID's prior approval for checks written on the counterpart fund account.

We found no evidence of misuse in AID's development assistance program, but inadequate counterpart funding by the Liberian government has directly reduced the capability of AID to achieve its development objectives in the country. An effective AID development assistance strategy will, among other things, require concerted efforts by the Liberian government to (1) improve its accountability and (2) meet the funding needs of its development budget, consisting largely of P.L. 480 counterpart funds, to adequately support development projects.

We did not find any evidence of misuse in the military housing construction program. However, we question whether there were systematic controls over contract administration prior to 1985 when the Liberian government handled contract awards.

Recommendations

We recommend that the AID Administrator negotiate agreements with the government of Liberia to strengthen controls over the P.L. 480 program. The following provisions should be considered.

- Counterpart funds should be placed in a commercial bank not affiliated with the Liberian government.
- The AID Mission should be allowed to have prior approval authority for all checks written on the counterpart fund account.
- Project plans that include such things as project objectives, budget line items, and reporting requirements should be submitted to the AID Mission prior to disbursing counterpart funds.
- Independent verification of counterpart fund use should be made by a party acceptable to both the Liberian and U.S. governments.

Agency Comments and Our Evaluation

AID, DOD, and Treasury commented on a draft of this report. Based on those comments and subsequent discussions with representatives of AID's Africa Bureau, we have made changes where appropriate in our report. DOD concurred with our analysis of the military housing construction program. Treasury officials in the Office of the U.S. Executive Director at the World Bank reviewed the portions of the draft applicable to the World Bank experiences in Liberia, and their comments were also incorporated as appropriate.

AID Comments

Overall, AID stated that the report was a straightforward analysis that highlighted problems in implementing U.S. assistance programs in Liberia (see app. V). AID noted that it has worked hard to plan and implement the economic assistance program in Liberia and to encourage better control and accountability.

AID stated that after our fieldwork was completed, it began planning a new program to assist the Liberian government in establishing improved financial controls and will seek to provide 17 operational experts to work in partnership with Liberian officials in key financial positions within the Liberian government. AID reported that the experts will have countersigning authority in key financial positions and will help in establishing mechanisms and ensuring compliance with a series of reform measures throughout the Liberian government. AID officials said that the program will cost approximately $18 million over a 2-year period. AID's comments also included several references to updated actions that occurred after we left Liberia in late October 1986. These actions have been recognized in the report as appropriate.

AID agreed with the thrust of our recommendations for strengthening controls over P.L. 480 counterpart funds. It said, however, that in carrying out negotiations with Liberia on this matter, it may be necessary to develop alternatives to our specific recommendations. While we recognize that modifications may be necessary as emerging circumstances warrant, we believe that depositing counterpart funds in a commercial bank should be part of negotiations with Liberia on making improvements in P.L. 480 controls.

AID also suggested some changes in our recommendations. AID's suggestions, which we adopted, were consistent with our intent to strengthen P.L. 480 controls. We clarified the type of information that should be included in the project plans we recommended for submission to the Mission by the Liberian government, prior to disbursement of counterpart funds. Also, because the P.L. 480 counterpart funds are viewed by AID as owned by the host country, we changed our recommendation from U.S. verification of fund use to verification by a party acceptable to both the

U.S. and Liberia governments. AID officials expressed concern about potential U.S. liability that would be associated with our proposal for the Mission to co-sign checks written on P.L. 480 counterpart fund accounts. Therefore, we adopted their suggestion that we recommend AID negotiate prior Mission approval authority rather than co-signing authority.

In commenting on the early 1980s ESF programs, AID agreed that tracking ESF counterpart funds was difficult. In recognition of those problems, AID undertook a series of reviews with the Liberian government to reconcile money spent by Liberia on development projects attributed to ESF counterpart funds. AID accepted Liberia's reporting in mid-1985 on uses of funds attributed to the ESF counterpart, a number of years after the ESF grants were provided.

AID's comments suggest that a basic objective of ESF assistance was fulfilled in that the Liberian government eventually budgeted funds for development in amounts equivalent to the ESF grants. While this argument can be presented, our work showed that (1) U.S. assistance provided since 1980 has at various times been vulnerable to misuse and/or mismanagement; (2) an adequate level of accountability and control did not always exist, due largely to Liberia's noncompliance with agreement provisions; and (3) the ESF program was not audited. In such an environment, the system of reconciliation based on attribution does not ensure adequate control to prevent the misuse/diversion of counterpart funds actually generated from ESF. For example, as discussed in appendix II, several questions concerning operations of the ESF counterpart account remain unresolved, including (1) why the sale of several million dollars of ESF-financed oil on the local Liberian economy did not generate equivalent and timely deposits to the special account and (2) whether or not the shortfalls in oil sales deposits represented any misuse of ESF-financed commodities by the Liberia Petroleum Refining Corporation.

AID noted that counterpart funds are owned by host governments and that it must rely to a greater extent on host country accounting systems than is the case for direct U.S. assistance funds. Although these conditions may exist, we believe that the requirement to establish separate or special accounts to clearly distinguish counterpart funds is part of a strong accountability and control system, along with (1) timely and accurate reporting on fund deposits and expenditures; (2) a means to routinely monitor and verify transactions that includes selective checks to ensure funds are actually disbursed to end users that have been agreed upon; and (3) independent audit. Because end use checks can be administratively burdensome and costly, periodic checks should be made based on criteria such as funding amounts involved and the degree of previous control problems encountered with host country agencies.

Counterpart funds generated from ESF and/or P.L. 480 commodity sales are important sources of money for recipient countries' development budgets. Therefore, a means to reliably monitor local currency generations, deposits, and expenditures is necessary to ensure reasonable accountability. In countries such as Liberia, the issue of control over counterpart funds becomes even more important because, as AID officials note, U.S. generated counterpart has become in recent years the primary source of local revenue for support of development programs.

Objectives, Scope, and Methodology

Our objectives were to determine (1) whether there was any evidence of misuse or diversion of U.S. assistance and (2) whether controls over U.S. assistance are adequate. We conducted our review from July 1986 to May 1987. We interviewed officials of AID and the Departments of State, Treasury, and Agriculture in Washington, D.C., and reviewed files on Liberia assistance programs. We also met with officials of DOD's Defense Security Assistance Agency; the U.S. Army Security Assistance Center in Alexandria, Virginia, and New Cumberland, Pennsylvania; and the Corps of Engineers, Middle East Division Headquarters in Winchester, Virginia, to discuss program issues and review files on military assistance transactions.

Our fieldwork in Liberia was performed between September 22 and October 31, 1986. In Liberia, we interviewed AID, State Department, and DOD Military Mission officials and reviewed files, visited AID and military projects, and analyzed data. We also met with Liberian government, World Bank, and commercial bank officials to obtain their comments on various review topics.

We conducted this review 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 the issuance date. At that time, we will send copies to appropriate congressional committees; the Director, Office of Management and Budget; the Secretaries of State, Defense, Treasury, and Agriculture; the Administrator of AID; and other interested parties.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Assistant Comptroller General

Contents

Abbreviations

ACDB	Agriculture and Cooperative Development Bank
AID	Agency for International Development
COE	Corps of Engineers
DA	Development Assistance
DOD	Department of Defense
ESF	Economic Support Fund
FMS	Foreign Military Sales
GOL	Government of Liberia
IG	Inspector General
LPMC	Liberia Produce Marketing Corporation
LPRC	Liberia Petroleum Refining Corporation
MAP	Military Assistance Program
MOU	Memorandum of Understanding
NBL	National Bank of Liberia

P.L. 480 Food Assistance Program

Liberia received about $85 million in Public Law (P.L.) 480 assistance during fiscal years 1980-86, as shown in table I.1:

Table I.1: P.L. 480 Program Assistance

Dollars in millions

Fiscal year	Amount
1980	$5.3
1981	17.7
1982	15.3
1983	15.0
1984	15.0
1985	6.0
1986	11.0
Total	**$85.3**

Source: AID Congressional Presentations

The Agricultural Trade Development and Assistance Act of 1954, commonly referred to as the "P.L. 480" program, established the U.S. international food assistance program. Liberia's participation in the P.L. 480 program has been primarily limited to the title I portion of the act, which involves government-to-government sales of commodities. These sales are concessional in nature; that is, they have terms more favorable to the recipient country than the terms of normal commercial sales. For example, the fiscal year 1986 agreement signed with Liberia provides for a repayment period of 40 years, including a grace period of 10 years. During the grace period the interest rate is only 2 percent. When the 10-year grace period is over and the government of Liberia (GOL) begins payments, the interest rate will rise to 3 percent. The U.S. Department of Agriculture, through the Commodity Credit Corporation, finances the sale and export of agricultural commodities under title I sale agreements. The actual sales are made by private U.S. suppliers to foreign importers or to a foreign government agency in the recipient country. The commodities are then resold in the recipient country, and local currency proceeds, also known as counterpart funds, are to be used by the government of the recipient country for purposes specified in the sales agreement.

In Liberia, rice is imported under the P.L. 480 program. The program's objectives are to provide sufficient quantities of rice to meet the country's food deficits and at the same time to generate counterpart funds to finance operating costs of specified development projects. These development projects, together with agreed upon self-help measures, are directed at improving the lives of the poor in rural areas. GOL assigned responsibility for importing and marketing the P.L. 480 rice to the Liberia Produce Marketing Corporation (LPMC), a government corporation.

Loss of Rice and Counterpart Funds in Fiscal Years 1983 and 1984

During fiscal years 1980-82, AID considered the GOL to be substantially in compliance with the P.L. 480 agreements. However, beginning in fiscal year 1983 it became apparent that this picture was changing. The AID Mission became aware that the LPMC was encountering financial difficulties and that delays in deposits of counterpart funds were occurring. The Mission tried to encourage improvement in program performance through meetings and other forms of communication with GOL officials.

The GOL signed a $15 million P.L. 480 agreement for fiscal year 1984 that provided approximately 44,000 tons of rice. AID officials said that as this rice was arriving in Liberia, commercial rice was also flooding the Liberian market. As a result, much of the P.L. 480 rice had to be warehoused, but some of the rice spoiled due to poor warehousing and became unfit for human consumption. In addition, P.L. 480 stocks were pilfered and the LPMC gave rice to government officials, ministries, and government corporations without requiring payment. AID records also indicate that P.L. 480 rice had been given to Liberian soldiers in lieu of wages. As a result of these problems, the AID Mission requested the AID Inspector General (AID IG) to audit the P.L. 480 program.

As of March 1985, the AID IG had documented an estimated $16.5 million shortfall in the special account for proceeds from the sale of P.L. 480 rice. The exact amount of the shortfall was difficult to document because the accuracy of LPMC's rice inventory was questionable. A number of reasons were given for this shortfall, including (1) the provision of rice on credit to various customers, (2) the provision of rice without requiring payment, and (3) poor inventory procedures. About $14.4 million of the shortfall represented money owed to LPMC from credit sales (which included the transfers without payment of about $1.1 million in rice to GOL officials, ministries, and other public corporations). Documents provided to us in Liberia showed the transfers on credit included organizations such as the Executive Mansion, the Ministry of Defense, and the Ministry of Justice. The AID IG characterized LPMC's sale and credit policies as "weak" and said that $7.4 million of the money owed was uncollectible due to the age of the debts. Also, some of the debtor organizations no longer existed. However, the Mission continues to hold the GOL accountable for the entire shortfall.

Controls Improved in 1985

The 1985 AID IG audit report on the P.L. 480 program in Liberia recommended that:

1. The AID Mission in Liberia not enter into any new P.L. 480 title I agreements with GOL until all of the present agreement's terms and conditions were met, to include

a. reestablishing the special account, which had been closed in May 1984 contrary to agreement terms, and

b. depositing delinquent sales proceeds to the account.

Recommendation 1.a. was implemented in April 1985 when the GOL opened a P.L. 480 special account at the Agriculture and Cooperative Development Bank (ACDB) owned and managed by the government of Liberia. Recommendation 1.b. was designed to make the GOL accountable for the shortfalls that were identified by AID IG. After the audit, the government reported some deposits to the account, but as of June 1985, approximately $9.7 million in sales proceeds had not been deposited. Subsequent to signing the July 1985 P.L. 480 agreement, GOL was required to make five quarterly deposits of approximately $1.937 million each (totaling about $9.7 million), on a schedule specified in a fiscal year 1985 Memorandum of Understanding (MOU). The first two payments were made and the remaining three (approximately $5.8 million) were rescheduled in the fiscal year 1986 MOU.

2. The AID Mission should include in future P.L. 480 agreements with GOL

a. a provision for the maintenance of a special account and

b. a requirement for Mission approval of releases from the special account.

To implement recommendation 2.a., the fiscal year 1985 MOU required LPMC to deposit proceeds from P.L. 480 sales into an established special account at the ACDB. Such a requirement was also included in the fiscal year 1986 MOU.

According to the IG audit report, full implementation of recommendation 2.b. was not then considered feasible if interpreted to require the Mission to countersign checks on the account, because past attempts for such authority had failed. However, the IG reported that for future agreements, GOL was expected to advise the Mission in writing in advance of its intention to disburse or transfer funds. The fiscal year 1986 MOU stated that the GOL Ministry of Planning and Economic Affairs was to provide quarterly reports on expenditures from accounts established for overdue counterpart proceeds and on proceeds generated under the fiscal year 1986 agreement.

Fiscal Year 1985 Program

Because of problems in the fiscal years 1983-84 agreements, the Mission delayed signing the fiscal year 1985 P.L. 480 program agreement until late in the fiscal year and reduced the amounts of assistance from previous years to $6 million. AID officials stated that they experienced no problems with the program during fiscal year 1985; offloading and storage losses were minimal, all the rice was sold, and the required $6 million in sales proceeds was deposited in the special account. Some, but not all, of the funds have been disbursed from the special account for development projects. As of October 3, 1986, $1.8 million remained in the special account. The majority of this amount ($1.4 million) represented money that has not yet been allocated due to the removal of P.L. 480 funding from a project at AID's request.

Problems With Compliance in Fiscal Year 1986 Program

The system used by the AID Mission to control the P.L. 480 program relies on (1) agreement between AID and GOL on which development projects will be funded with the proceeds of P.L. 480 rice sales, (2) specific funding amounts for each project, and (3) monitoring of the P.L. 480 special accounts. The AID official responsible for overseeing the P.L. 480 program in Liberia stated that the major control over funds is ensuring that the agreed upon amount of sale proceeds are deposited into the special account. Although flagrant problems such as the loss of rice and sales proceeds experienced in the fiscal years 1983 and 1984 P.L. 480 programs no longer exist, GOL did not fully comply with the fiscal year 1986 P.L. 480 MOU. In our opinion, continued U.S. reliance on the GOL-controlled bank for control of counterpart funds could lead to uses of those funds for purposes inconsistent with the assistance agreement.

GOL Did Not Comply With the Fiscal Year 1986 MOU

At the time of our visit to Liberia in September and October 1986, GOL was not in compliance with several parts of the MOU for the fiscal year 1986 P.L. 480 agreement, signed on April 28, 1986. Subsequent to completion of our fieldwork, AID provided updated information on the status of GOL compliance, including actions taken to resolve certain violations.

The following describes the MOU violations at the time of our work in Liberia and AID's actions.

1. A P.L. 480 Coordinating Committee, comprising representatives from various GOL ministries and agencies, was to develop a list of established rice distributors who would be eligible to receive P.L. 480 rice. The Committee did not draw up such a list; LPMC did.

2. LPMC was not to sell P.L. 480 rice to anyone except rice distributors on the approved list. LPMC sold rice to individuals who were not rice distributors.

3. The AID Mission was to be provided a list of the rice distributors eligible to receive P.L. 480 rice along with the amounts they were to receive. The Mission had not received such a list at the time of our in-country visit. AID acknowledged that these first three violations represented a failure of the LPMC to make certain improvements in the rice marketing system that were designed to ensure the collection of sales proceeds. However, AID also believes that the LPMC has made improvements in its overall cash management practices, resulting in quicker counterpart deposits.

4. ACDB was appointed to handle all banking transactions connected with the P.L. 480 program. ACDB was to be reimbursed for all legitimate charges only after the GOL Ministry of Planning and Economic Affairs reviewed and approved the request for reimbursement. We found that the ACDB had withdrawn funds from the special account without authorization. These withdrawals totaled about $1.7 million as of September 30, 1986. AID stated that this violation was resolved after the fact on April 1, 1987. At that time, the Ministry of Planning and Economic Affairs allowed expenses incurred in the shipping of P.L 480 rice to be applied against the unauthorized withdrawals.

5. LPMC was to make three payments of about $1.937 million each into the special account for overdue sales proceeds from the P.L. 480 agreements covering fiscal years 1983 and 1984. The first two payments were to be made in June and September 1986 and the third was scheduled for December 1986. As of October 1986, neither of the first two payments had been made. A GOL official said that the LPMC had not made these two deposits because of insufficient funds and due to the lack of cooperation by a Special Debt Collection Task Force established by the Executive Mansion, which was holding the records on the status of the debt collection. The LPMC had not been successful in its efforts to obtain these

records so that it could proceed with debt collection efforts. AID indicated that in March 1987, GOL made one of the delinquent payments of $1.9 million into the special account for overdue sales proceeds. The remaining two payments, totaling about $3.9 million, are to be rescheduled as part of the fiscal year 1987 agreement negotiation process. AID Africa Bureau officials indicated that since this is the second time the overdue balance has been rescheduled, the GOL will be notified that (1) no further rescheduling will be permitted and (2) the local currency arrearages must be settled within one year.

6. Rice sales proceeds were to be disbursed to development projects mutually agreed upon by GOL and the AID Mission. Even though GOL and the AID Mission had not agreed on what projects should be funded with the proceeds from the fiscal year 1986 program, GOL was disbursing these funds to a number of activities at the time of our fieldwork. AID indicated that this violation was resolved in December 1986 when the mission and GOL agreed upon a list of projects to benefit from P.L. 480 counterpart funds.

7. The GOL Ministry of Finance was to submit reconciled statements to the Mission for all P.L. 480 special accounts on a monthly basis, with the first statement due by May 15, 1986. None of these statements had been provided to AID at the time of our review.

Overall, AID agreed that GOL standards of accountability for P.L. 480 have eroded in recent years as demonstrated by the violations of the fiscal year 1986 agreement. Representatives of GOL's P.L. 480 Coordinating Committee said they knew the government had not fulfilled all of the P.L. 480 agreement and MOU conditions. They told us that GOL authorities typically accept assistance conditions and then do not meet them. Our analysis of AID documents associated with the U.S. assistance strategy in Liberia suggests that the United States has contributed in part to this attitude by tacitly accepting, for political and strategic reasons, Liberian shortfalls in meeting conditions. AID Africa Bureau officials said that it has been the Agency's policy to insist on compliance, although modifications and waivers took place occasionally.

Risk of P.L. 480 Diversion Remains High

Sale proceeds from the P.L. 480 program are currently deposited into an account at the ACDB, a bank owned and managed by the GOL, despite past actions by AID to keep assistance funds out of the hands of GOL institutions and a history of problems in dealing with GOL banks. Two government organizations no longer handle P.L. 480 funds—the LPMC and the

National Bank of Liberia (NBL). Prior to fiscal year 1986, the LPMC was required to collect sales proceeds from rice distributors and deposit the money into the P.L. 480 special account. However, since the fiscal year 1986 P.L. 480 agreement, the LPMC no longer collects funds from dealers. Instead, the distributors deposit sales proceeds directly into the P.L. 480 special account. Also, prior to the 1985 AID IG audit, the NBL held a P.L. 480 special account. AID staff believed that at least some of the deposits in this account were "paper entries" that had no actual funds backing them. In a 1983 report, an AID staff member wrote: ". . . the GOL has had to make frequent use of any and all cash available to it due to the severe liquidity crisis which has existed since 1980. Thus, while the NBL holds considerable P.L. 480 assets on its books, the GOL probably has used this addition to NBL's liquidity to meet urgent needs, be they for the Development Budget or other purposes."

Because P.L. 480 funds deposited in the NBL were used for general revenue purposes rather than development, AID indicated in February 1985 that the special P.L. 480 account in the NBL would have to be moved to a commercial bank, and the fiscal year 1984 MOU was amended accordingly. Since the identity of the commercial bank was not specified in the amended MOU, GOL chose the ACDB, which AID believed technically met the requirements of a commercial bank in Liberia even though it was government-owned. According to ACDB officials, the bank is 90 percent owned by the Liberian government, key officials are appointed by the country's President, and a central government account exists at the bank.

Treasury Department staff said that the World Bank has also experienced problems with GOL banks. Special project accounts were established in the NBL to fund operating expenses of World Bank-funded projects in Liberia. When project managers presented checks to the NBL drawn on some of these accounts, the bank could not honor the checks even though funds had previously been deposited in the accounts. This was attributable to unauthorized use of World Bank funds for other undetermined purposes.

Members of the banking community in Liberia indicated that they do not have faith in the management or liquidity of GOL banks. A private check clearing system is currently in operation in Liberia. We were told that one of the large banks that developed this system will not include the ACDB in the check clearing operation because they feel it is too risky to accept ACDB checks.

We believe the liquidity crisis in Liberian banks increases the risk of diversion/misuse of funds in special accounts. Officials in AID's Africa Bureau, however, disagreed with our assessment of the risk involved in having the ACDB manage the counterpart account. They said that although periodic liquidity problems, coupled with management inadequacies, have sometimes slowed the rate of counterpart disbursements, the Mission has received copies of cancelled checks on funds eventually disbursed to project accounts. We believe, however, that the severe economic situation in the country continues to place significant pressure on GOL to use any cash resources available to it, whether for agreed to or other purposes. The slow rate of disbursement to projects suggests that there may be competing demands for the P.L. 480 counterpart funds.

We also noted that the Mission did not have a good information base to determine how P.L. 480 counterpart funds that were disbursed to non-AID projects were actually spent. GOL had not provided the Mission with justification statements for its projects funded through P.L. 480, only a listing of project titles. As a result, current Mission officials were not fully informed of the goals or operations of over one-third of the projects receiving allocations and/or disbursements of approximately $2.9 million in fiscal years 1984 and 1985 P.L. 480 counterpart funds.

Economic Support Fund

Congress created the Economic Support Fund (ESF) program to provide, among other things, balance of payment support and to promote economic stability in developing countries of special interest to the United States. From fiscal year 1980 through 1986, the United States has provided approximately $200 million in grants to the Liberian government. The first funds were used to purchase oil offshore. Subsequent grants were also used to purchase oil until fiscal years 1982-83 when GOL began using most of the funds for debt servicing. Debt servicing has remained the primary use of ESF through fiscal year 1986. AID records show the following amounts and uses of ESF since 1980.

Table II.1: Economic Support Fund Grants

Dollars in millions

Grant number	Fiscal year	Oil	Debt	Total
601	1980	$5.0	$ •	**$5.0**
602	1981	7.0	•	**7.0**
603	1981	25.0	•	**25.0**
604	1982	6.0	29.0	**35.0**
605	1983	8.0	24.0	**32.0**
606	1984	•	35.0	**35.0**
607	1985	•	43.0	**43.0**
608	1986	•	18.0	**18.0**[a]
Total		**$51.0**	**$149.0**	**$200.0**

[a]An additional $10.2 million was initially obligated under this grant. According to AID officials, the agency has notified GOL that it plans to deobligate $5.2 million of this amount.

Controls Lacking Over Early ESF Grants

Numerous problems were encountered by AID in administering the first five ESF grants (601-605). Most of the problems centered around (1) AID's inadequate enforcement of controls and (2) GOL's failure to fully abide by certain grant terms. The AID Mission continued, however, to negotiate subsequent grants while GOL was in noncompliance. One AID official stated that at that time, the new Liberian government was stabilizing and the Mission was under significant pressure from the Embassy to infuse ESF funds into the Liberian economy. Records show that several control problems plagued the early ESF programs; specifically, GOL

- used initial ESF grants for purposes other than those stated in the grant agreements;
- failed to report uses of ESF grants at all or within established time frames;
- did not adequately account for or report on actual deposits/ disbursements from the counterpart fund special account; and

- failed, in some instances, to disburse ESF funds for debts as previously agreed to with AID.

According to Mission officials, some of these control problems resulted from their general policy of letting GOL attribute uses of ESF funds as specified in the various grant agreements. AID has not audited the ESF program. We believe that because several accountability problems were apparent throughout the ESF program, the lack of an AID audit represented a control weakness.

Initial Uses of ESF for Oil Purchases Were Improper

AID records indicate that GOL used the $12 million in funds from the first two ESF grants to pay for offshore oil, although the stated purpose of the grants was to provide general budget support for activities of four GOL development ministries. More specifically, AID records indicated that control problems associated with these first two grants included the following:

- There was no evidence that GOL established special accounts in the National Bank of Liberia (NBL) for use of the ESF grants, as required by the grant agreements.
- The Mission improperly permitted GOL use of the ESF grants to purchase oil and failed to ensure that GOL submitted the required reports on its use of grant funds.

An AID document indicated that GOL had not reported the use of the first two grants to the AID Mission as of April 1983, at least a year later than required. Subsequent grants were disbursed without resolving these initial problems of noncompliance. AID documentation indicated that the Mission considered amending the first two grant agreements after the fact to allow the GOL to purchase oil—including oil from Saudi Arabia—even though the grant agreements required purchases of goods and services from U.S. sources or in Liberia. The Mission instead opted to have GOL (1) acknowledge that funds were used for oil purchases and (2) verify that GOL funds equivalent to the grants were provided for support of the four development ministries. In January 1984, GOL acknowledged using the grants for oil payments and said that amounts equivalent to the grants were made available for support of the four ministries. AID accepted this explanation as a final accounting for the first two ESF grants.

Problems in Accounting for and Reporting on Counterpart Funds

Accounting for counterpart funds became a problem for AID beginning with ESF grant 603 in fiscal year 1981. The first two grants (601 and 602) did not require GOL to generate counterpart funds; however, the third ESF grant required GOL to deposit an amount in GOL-owned U.S. dollars equivalent to each U.S. dollar received under the grant into a special account in the NBL. The stated purpose of the counterpart fund was to finance selected development-related activities in Liberia. Beginning in fiscal year 1981, two full grants (603 and 604) and part of grant 605, totaling $68 million, were provided to GOL with counterpart deposit requirements. A special account to hold these funds was required, and deposits were expected within 15 days after grant disbursements for the first two grants and within 90 days for the last grant having the counterpart requirement. Reports of account activity were to be submitted to AID. AID documents indicate that GOL encountered significant problems in properly accounting for and reporting on counterpart funds. For example:

- GOL was unable to fully comply with the deposit conditions. Although much of the counterpart was expected to be generated from the sale of oil financed by ESF grants, this mechanism did not work. There was evidence that oil went to GOL and its government-owned corporations without payment and that some oil sales proceeds may have been diverted to other purposes.
- The accounts did not function as planned. In certain instances, disbursements that GOL had made and attributed to the account were thought to be from general revenues rather than the account. AID documents indicated that because (1) the account was in the NBL and (2) actual expenditures were from general government revenues rather than the account, the Mission had no real control over the account. The Mission tried to gain control by having the special account moved from the NBL to a U.S. commercial bank in Liberia, but GOL refused.

Also, GOL often failed to report on uses of disbursements attributed to the special account, and when reports or evidence of use were submitted, the Mission had great difficulty in reconciling the GOL figures. For example, GOL (1) changed listings of projects to be funded from the counterpart without Mission approval and (2) reported uses of ESF that actually represented double counting of ESF and P.L. 480 counterpart funds.

AID dropped the counterpart requirement in a January 1983 amendment to the fiscal year 1983 ESF grant. It was believed that increasing uses of ESF for debt, if combined with a requirement for deposits of equivalent

GOL counterpart, would exacerbate the country's severe liquidity problem. AID felt that the principal reasons for GOL's shortfall in making actual deposits and disbursements of counterpart funds was the inability of major purchasers to pay oil bills owed to the Liberia Petroleum Refining Corporation (LPRC), the GOL-owned wholesaler of oil purchased with ESF funds. The amendment to the fiscal year 1983 grant stated that the LPRC held outstanding receivables totaling $42.3 million. At that time, GOL had accounted only for $16.5 million in disbursements of the $68 million that was to have been generated under the counterpart requirement. AID attributed the difference of $51.5 million as being partially accounted for by (1) GOL failure to provide timely accounting reports on the use of the funds, (2) the use of $13 million for debt that did not generate counterpart funds, and (3) "leakages" from the system when only partial amounts of counterpart requirements were actually generated from the sale of oil on local markets.

AID documents dated January 1983 indicate that although counterpart generations were no longer required beginning with the second disbursement in the fiscal year 1983 ESF program, the Mission expected GOL to (1) retain the counterpart account for deposit of funds required from prior year grants and (2) use the money for agreed-to development projects. AID records in February 1984 indicated that GOL continued to have significant problems in accurately reporting on counterpart fund disbursements and that the Mission had not compiled a complete reconciliation of the figures. In mid-1985, the Mission accepted GOL's listing of projects receiving funding attributed to ESF grants 601-604 and part of 605 totaling $80 million. We do not believe that a system of GOL attribution could ensure that actual counterpart funds generated from ESF were not diverted or misused.

Allegations have been made that the ESF-financed oil program, as administered by the LPRC, included questionable activities, such as extending credit to high-level GOL officials without repayment. We did not identify any evidence either confirming or disproving this allegation. However, AID officials noted that by the end of 1982, the Mission had concluded that (1) the continued use of ESF for oil would be increasingly subject to the possibility of misuse due to questionable GOL procurement practices and (2) there was a potential for corruption involving oil purchases and allocations. Because of the overall concerns about LPRC management, as well as the increasing significance of the GOL debt problem, the use of ESF grants to finance oil imports was stopped.

Problems in Use of ESF for Debt

Beginning with grant 604 in fiscal year 1982, ESF funds were used to pay GOL external debts. AID required GOL to submit a list of debts, and if the grant conditions were met, AID would approve the debt listing and disburse the funds to GOL's bank.

Our review of AID records indicates that on at least two occasions the Mission questioned GOL about its uses of ESF intended for debt. One case (in early 1983) involved the apparent use of $3.8 million in ESF to pay GOL salaries and $700,000 to buy military uniforms. On another occasion under the fiscal year 1983 grant, the Mission stated that GOL had used ESF funds for purposes and in amounts other than those agreed to beforehand. This case involved a loan listing that was sent to and approved by the Mission. Once the ESF funds were disbursed by AID, the GOL paid loans that were not previously agreed to by the Mission. AID noted that this was not the first time GOL had used ESF funds for purposes and amounts other than those agreed upon. AID officials believed the problem could be attributed to poor communication and coordination between GOL institutions and the general lack of financial management in that government.

Cash Transfer Mechanism Changed to Tighten Control

AID officials told us that because of the problems experienced with GOL in accounting for ESF, including the use of ESF for paying debts other than those agreed to, the tracking procedures were strengthened by incorporating formal payment procedures in subsequent ESF agreements. For example, conditions precedent to disbursement were added, requiring GOL to submit to the Mission a copy of the payment cable instructing the Federal Reserve Bank of New York to pay only those debtors agreed to by the Mission. Further, at the time of disbursement by the Federal Reserve, an AID official in Washington, D.C., was to call the Bank to confirm the timing of the disbursement and that the payees were only those specified in GOL's payment cable. AID officials told us they now feel confident that the funds are controlled to the extent that diversion is virtually impossible and accountability is consistent with agreement terms. Our analysis of the fiscal years 1985 and 1986 grants indicates that procedures were adequate to ensure that funds were used for agreed upon purposes.

In fiscal year 1985, AID became concerned that the continued use of ESF for debt servicing was not reducing GOL's mounting debt problem. The overall debt situation has continued to deteriorate despite a number of large ESF disbursements in recent years. The debt situation has become worse due to numerous factors, including lack of financial discipline in conducting most government operations and nonbudgetary expenditures, depressed prices for commodity exports, and the increasing amounts of repayments owed the International Monetary Fund for past assistance. AID officials also noted that the current Liberian government inherited financial problems from the prior government, including a substantial short-term debt portfolio.

At the time of our visit to Liberia, Mission officials were planning the ESF grant for fiscal year 1987. They were debating whether the policy of using ESF for debt servicing represented a prudent use of limited ESF funds in the face of significantly increased GOL debts. Other alternatives being considered were funding specific projects and/or starting a commodity import program.

Development Assistance

AID programmed approximately $83 million in Development Assistance (DA) projects in Liberia during fiscal years 1980-86, as shown in table III.1.

Table III.1: Development Assistance Program

Dollars in millions

Fiscal year	Amount
1980	$10.8
1981	5.3
1982	12.0
1983	12.8
1984	13.0
1985	15.4
1986	13.7
Total	**$83.0**

Source: AID Congressional Presentations

DA projects provide humanitarian assistance in a number of sectors, including agriculture, basic health care, education, and selected development areas such as low income housing. According to AID's fiscal year 1988 Congressional Presentation, 12 DA projects were active in Liberia during fiscal year 1986. Based on our analysis and discussions with AID Mission officials, we found that AID has taken steps to improve controls over the DA program. However, projects have been adversely affected because Liberia has not met its funding commitments. This problem became particularly evident in late 1984 when the P.L. 480 special account mechanism broke down. Slow disbursement to projects has also been attributed to poor GOL budget planning and a cumbersome disbursement process. To reduce the risk of misuse/diversion, AID has made an effort to implement projects through methods that are directly under its control. For example, Liberian contracts, administered through the host country, are avoided in favor of direct contracts with U.S. technical assistance firms, because the Mission has little confidence in the managerial capability of GOL institutions.

The performance of AID's DA projects, as well as that of the other major donor operating in Liberia (the World Bank), has been adversely affected by GOL's failure to meet its funding obligations for support of donor project activities. Some projects have been reduced in scope and certain activities dropped altogether because of GOL's failure to meet funding requirements under the projects' plans. GOL problems in meeting its obligations include an overall lack of financial liquidity and extremely poor economic conditions in the country. However, part of the problem has historically stemmed from the lack of control over funds generated from the sale of P.L. 480 commodities, directly reducing the overall availability of government funds and, consequently, the effectiveness of the projects.

Mission Efforts to Exercise Control

Under its policy, the AID Mission contracts directly with local construction companies which, according to Mission officials, enables them to monitor all construction contracts closely. At least two, and sometimes three, reviews of contractor performance have taken place. For large projects, the Mission has used an architectural and engineering firm or engineers on personal service contracts to monitor contractor activities. Through frequent visits to inspect construction sites, the AID project officer has served as a second check on the performance of Liberian construction contractors. The Mission's Engineering Office, the third check, has received field reports and made periodic site visits. The Engineering Office is currently staffed by two AID engineers.

The Mission also uses local accounting firms to investigate the financial management capability of local nongovernment institutions that receive and/or manage DA funds. Such efforts to strengthen control were made in the wake of project audits and evaluations that found a number of financial management deficiencies in local institutions receiving DA project funds. For example, in a project to combat childhood communicable diseases, an evaluation found that the implementing unit's financial management system needed improvement to meet generally accepted accounting standards. An audit of a rural development project confirmed the Mission's suspicions about financial management improprieties, and redesign of that project is planned.

AID's low income housing project, which was originally managed by the Liberian National Housing Authority, has also been audited. According to the audit report, the Housing Authority's disbursements were not adequately supported to show the accuracy and authenticity of transactions. The auditors also could not determine the liabilities of two subprojects. The Mission assumed responsibility for the construction contracting for the project, thus removing the GOL unit from "hands-on" control of AID funds.

Serious questions on the soundness of financial management in the Liberian public sector have also been raised during the Mission's ongoing economic and financial management and training project, which is designed to strengthen management in key GOL ministries--including the Ministry of Finance, the Ministry of Planning and Economic Affairs, and the Bureau of the Budget. The problems observed in the Ministry of Finance highlight some of the weaknesses in Liberian management capability. An AID consultant on the project said that the government ministries essentially have no approved internal controls and that revenue and expenditure transactions are not adequately documented. We were told that a project study found that the primary focus of financial activities is centered on processing paperwork, while little attention is directed toward accounting and cash management.

Lack of Counterpart Funds Reduces DA Project Effectiveness

As stated in the 1985 AID IG audit of the P.L. 480 program, the failure of the Liberia Produce Marketing Corporation to make required deposits to the P.L. 480 counterpart account directly reduced the effectiveness of AID DA projects. The funds in the special accounts were to be transferred as counterpart funds to approved development projects. Because of the shortfall, project activities were reduced and operations became uncertain. AID officials noted that beginning in 1985, P.L. 480 virtually became the sole source of funds for development because GOL was unable to contribute its own resources to support development programs. AID Mission and World Bank officials agreed that because the overall government financial situation is so bad, GOL funding support is a fundamental development program issue in Liberia.

For example, a Mission analysis of a July 1983 grant agreement indicated that GOL's contribution to the project for combating childhood communicable diseases was to be $354,000, to cover per diem, kerosene, and other operating expenses. The analysis stated that no GOL operating funds had been made available at the time of our review in October 1986. One project document cited reductions in support for staff travel and supervision and fewer funds for program operations as direct results of this funding gap. Project activities at some clinic sites lapsed for months at a time. To compensate for a lack of GOL funds, some program objectives were reduced and AID speeded up its flow of funds to the project. According to Mission records, if GOL funding is not received, the project will end a year early in July 1987. An AID document projected the effect of early termination as significant in terms of direct and indirect economic costs resulting from lives lost, hospitalization, and medical costs. The next potential epidemic year for measles in Liberia is 1988 and an early termination of the project would contribute to reduced immunizations, resulting in 150,000 cases of measles during the epidemic, 5,000 deaths of children from measles infection, and another

30,000 deaths within a year from complications associated with measles infection. Similar life threatening consequences were projected for polio, tetanus, and diarrheal disease victims. At the time of our visit, the Mission was discussing with GOL the need to make counterpart funds available.

Because of GOL's inability to meet its obligations, and because of AID's increased construction costs, a rural information system project was reduced from seven radio stations to three. According to AID documents, GOL has continually experienced difficulty in meeting its funding commitments that included P.L. 480 funds designated for the project in the country's development budget. At one point, staff training and other project activities were halted due to a lack of funds. Because of GOL funding shortfalls, AID allocated approximately $240,000 from loan funds for operational expenses of the project.

GOL has also not fully met its funding commitments for a primary health care project. Of the total commitment, $3.5 million was projected to come from P.L. 480-generated counterpart funds over a 5-year period. By the end of GOL fiscal year 1985-86 (year 3 of the project), the project had received about $1 million less than was originally planned. Because of the shortfall, GOL did not buy the pharmaceutical supplies necessary for the project, and the public sector components of the project were reduced. Although a new agreement had reduced the total GOL obligation (of which about $1.77 million would come from P.L. 480-generated counterpart funds), GOL was in arrears to the project at the time of our visit to Liberia.

The Military Housing Construction Program

Table IV.1 summarizes the total military assistance provided to Liberia since fiscal year 1980.

Table IV.1: Military Assistance

Dollars in millions

Fiscal year	FMS	MAP	IMET[a]	Total
1980	$2.5	$ •	$.2	**$2.7**
1981	4.7	1.0	0.6	**6.3**
1982	7.0	5.0	0.6	**12.6**
1983	6.0	6.0	0.7	**12.7**
1984	•	12.0	0.8	**12.8**
1985	•	12.0	1.2	**13.2**
1986	•	4.8	1.0	**5.8**
Total	**$20.2**	**$40.8**	**$5.1**	**$66.1**

[a]International Military Education and Training

Background

Because poor military housing conditions contributed to the military takeover in 1980, GOL's number one priority became better housing for the military. Department of Defense (DOD) documents indicate that the United States has channeled approximately $38 million in assistance to a multi-year military housing construction program. Other military assistance has been provided for a variety of purposes, including training in technical skills and procurement of small arms and equipment.

To begin the housing program, a U.S. military team provided engineering training to the Liberian 1st Engineering Battalion to construct 54 military family housing units. However, because the Liberian military engineers lacked essential equipment and personnel, GOL contracted with local construction companies to supplement the housing construction efforts of the 1st Engineering Battalion. This contracting arrangement, which began in 1981, continued until the U.S. Army Corps of Engineers (COE) assumed responsibility for the contracts in May 1985.

Based on analysis of available files, we developed information that raises questions as to whether there was systematic and independent control over the costs of construction during fiscal years 1981-84. Specifically,

- DOD officials said that the U.S. military mistakenly allowed GOL to enter into a series of contracts with Liberian vendors and contractors during this time period, which DOD officials regarded as inconsistent with applicable U.S. law and DOD procedures governing the use of MAP grant funds to pay for sales of defense articles and services under the FMS program (MAP/FMS funds).

- While COE procedures for cost estimation and contract awards appear systematic, independent, and designed to fully ensure competitive contract awards to local Liberian contractors, we could not determine if there were similar procedures during Liberian government administration of the contracts. We found that costs for some comparable contracts were lower by as much as 26 percent when the COE oversaw the program. Our ability to make program-wide conclusions was limited, however, because records on program activities prior to Corps contract administration were not complete.

Contracting Procedures and Controls

According to DOD documents, once the United States began providing MAP/FMS funds for the military housing construction program in fiscal year 1982, the U.S. government should have been a direct party to contracts funded. The United States did not, however, take over the contracting process until 1985.

DOD documents indicate that the use of MAP/FMS funds, without making corresponding changes to contracts and accounting procedures, was improper and illegal. DOD officials told us that failure to take over the contracting process was a technicality that simply went unnoticed and that when it was discovered in 1984, several months elapsed while they were determining the best way to handle the situation without embarrassing or angering GOL. A DOD team was sent to Liberia in early 1985 to evaluate the contracting situation and propose solutions. The team confirmed that contracting procedures involving the Liberian government were improper and endorsed U.S. management of the program by COE. DOD documents also indicated that the team addressed a number of program performance issues and concluded, among other things, that (1) housing construction under Liberian government direction was consistent with specifications and (2) the U.S. in-country team responsible for daily oversight of the program had full control over contractor billing and payment procedures. According to a study team member, although the analysis did not specifically address the issue of pricing and the reasonableness of contractor bids, the day-to-day involvement of the U.S. technical assistance team overseeing the program precluded any improprieties.

Bidding and Contract Award Procedures

The COE bidding system required that an independent U.S. government cost estimate, not known to the local contractors, be calculated to evaluate contractor bids. The independent government estimate was arrived at through a systematic process involving an analysis of architectural drawings, time and motion studies, and comparable construction costs from nearby African countries. When GOL entered into contracts prior to Corps involvement, the U.S. Technical Assistance Field Team assisted GOL in numerous aspects of the program, including the review of contractor bids. However, we did not find any evidence that the U.S. team or GOL had conducted independent pricing estimates similar to those of COE to ensure the reasonableness of Liberian contractor bids. According to COE officials, it is important to have some type of independent estimate in order to (1) know if the bids received correspond with current construction costs and (2) preclude collusion among bidders.

Our review of contract files suggests that GOL may have awarded at least one contract noncompetitively. A September 1983 memorandum from the Liberian Ministry for Civil Works indicated that a construction contract was awarded because the contractor had ongoing projects in the city of Monrovia. Furthermore, the same memorandum stated that the contractor could expect a subsequent contract through direct negotiation rather than competitive bidding. Records were insufficient to determine if this occurred.

There is some evidence that GOL may have awarded contracts for reasons other than lowest cost. A 1983 Office of the Ministry of National Defense memorandum stated that consideration for the award of a water project should be given to contractors who were loyal to GOL during the 1980 coup. We could not determine from the contract files, however, whether this statement had any influence on actual awards. Another 1983 memorandum from the Ministry for Civil Works noted that contracts were apparently awarded to several different contractors to economically help as many Liberians as possible. If contracts were actually awarded in such a manner, the United States could not be assured of reasonable construction costs.

We reviewed three construction contracts awarded by GOL at the same physical location for three building groups. Each bidder was classified as a Group A contractor—which meant the contractor had the necessary experience to construct projects valued in excess of $5 million. Our analysis of the bid proposals indicated that the contractor with the lowest proposal was given the least number of buildings to construct, despite statements on the bid document that the contractor agreed to reduce the amount even further if a contract was awarded for at least five buildings. The remaining buildings in the project were awarded to two other contractors. We calculated that GOL could have saved about $112,000 if the contractor with the lowest overall bid proposal had been given the entire award.

During our review of records available on the Liberian military housing construction program, we found that costs for at least one project constructed under COE contract administration were lower than construction costs for similar buildings constructed under GOL contract administration. For example, we found that costs were lower for one- and two-bedroom units by as much as $57,249 (26 percent) and $35,988 (17 percent), respectively. Because the contract files were incomplete and gave little information regarding GOL's pricing procedures, we could not determine why costs for comparable units in identical locations were different.

Although available records raise questions about pricing and award procedures, the monitoring of construction was similar under both contract award systems. Under GOL-awarded contracts, all construction projects were monitored by the U.S. Technical Assistance Field team, which inspected the work of construction personnel on projects. According to a COE official, when COE took over in 1985, a contracting representative was on-site performing continuous reviews of contractor performance. According to the Chief of the U.S. Military Mission, U.S. military personnel inspected every construction site during the entire life of the military construction program in Liberia. We visited a number of projects constructed under both systems. The COE contracting representative who accompanied us said that the difference in the quality of the work in any projects completed between 1981-86 appeared to be small.

Comments From the Agency for International Development

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

MAY 8 1987

Mr. Frank C. Conahan
Assistant Comptroller General
General Accounting Office

Attention: Mr. Lynn Moore, Project Manager

Dear Mr. Conahan:

Mr. McPherson, the Administrator of A.I.D., has asked me to respond to your letter of April 17, with which you enclosed the draft report entitled, Liberia: Poor Accountability and Control Over U.S. Assistance (GAO code 472116). You requested A.I.D. review and comments.

This letter provides comments on the major findings of the report and its recommendations and updates some of the information given in the report. The Africa Bureau of A.I.D. has also prepared a memorandum which gives a much more detailed review of the report and its annexes, providing additional sources or points of view, suggesting changes in wording to make the report more accurate, noting special circumstances or background information which the report does not include, and correcting some factual errors. I would like to suggest that GAO Project Manager Lynn Moore review this letter and the memorandum in detail with Lois Richards, Deputy Assistant Administrator for Africa and a former director of the Liberia A.I.D. Mission, and with Carol Steele, the A.I.D. Liberia Desk Officer. We hope that suggested changes will be considered for the final report.

The GAO is to be complimented on assembling a straightforward, concise, and readable report which highlights problems in implementing U.S. assistance programs in Liberia. The report notes that the United States has improved its controls over most of its assistance to Liberia in the last few years. We would like to confirm that A.I.D. has worked very hard to plan and implement the economic assistance program to Liberia and to secure progressively stronger controls and accountability over that program as experience indicated a need for such measures. A.I.D. audits, regularly scheduled project evaluations, and constant monitoring of programs by A.I.D. personnel have been responsible for surfacing problems (including most of those set out in the GAO report) and have resulted in changes in program composition and improved accounting procedures. There is always room for greater improvement, and we expect that the GAO report will become a valuable tool in this ongoing process.

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In a major development which occurred after the GAO team completed field work for this report, A.I.D. is planning a program to assist the Government of Liberia (GOL) to establish significant new financial controls. Administrator McPherson headed an A.I.D.-State Department economic mission to Liberia in early February 1987. An important result of this mission included agreement that A.I.D. would seek to provide 17 Operational Experts to work in partnership with Liberian officials in key financial positions within the GOL. These experts, who will have countersigning authority in a number of revenue and expenditure areas, will assist in setting up mechanisms and assuring compliance with a series of agreed upon reform measures for the government as a whole. They will also constitute another control measure for use of counterpart funds.

Before commenting on specific items in the GAO report, I would like to note two recurring problems that sometimes result in inaccurate conclusions being drawn. The first is that the report sometimes confuses or intermingles references to counterpart "Liberian" dollars versus U.S. dollars. The distinction is important. Counterpart funds are not appropriated U.S. assistance funds; they are the proceeds of sales of commodities, such as rice and oil. Counterpart funds are owned by the host-country government and are usually programmed in agreement with A.I.D. for support of specified development activities within the country. When dealing with counterpart funds, we must rely to a greater extent on host-country government records and accounting procedures than is the case with direct U.S. assistance funds. Accounting for counterpart funds is always a difficult undertaking for our programs worldwide, and we are continually working to institute improved procedures. Liberia is certainly no exception. A second recurring problem within the report involves some lack of specificity/accuracy in referring to dates -- calendar years, fiscal years, GOL budget years, general periods of time within which some action took place. The Africa Bureau memorandum to be discussed with your office in the near future identifies a number of these instances. We would like to have an opportunity to assist you in modifying them to assure greater accuracy.

A.I.D. comments on some specific items in the report include:

-- Report Title

The title of the February 13 GAO "briefing report" was, Problems in Accountability and Contol Over U.S. Assistance. We believe that title more accurately represents the findings of the report and request that the words "Problems in" be substituted for "Poor" in the current title of the draft report.

-- Description of Liberian Economy

Now on pp. 4, 26, and 27.

The characterization of the Liberian economy on page 7 and page 39 as being "on the verge of collapse" has undoubtedly been used before, probably even in U.S. Government and official international organization documents. On closer examination, the statement is inaccurate and could possibly damage the economy of a friendly country. Certainly, the Liberian economy faces extremely serious problems related to large and increasingly unsustainable budget deficits, rapidly expanding debt servicing requirements, and weakening world iron ore prices. However, the country continues to operate on a nearly $100 million trade surplus, and the rubber and timber sectors are sound and in some cases are increasing their activity. While the Government-controlled portion of the economy is in serious trouble, the bulk of the economy contained in the private sector has demonstrated remarkable resiliance. For an important document such as this GAO report to describe the economy as about to collapse could provoke crises both in the business community and in bilateral relations. We request that you delete or modify that comment.

-- P.L.-480 Food Assistance

The shortfall of $16.5 million in P.L.-480 Title I counterpart funds, i.e. the proceeds from sales under the FY 1983-84 agreements, was discovered more than two years ago by an A.I.D. audit specifically requested by the A.I.D. Mission in Liberia, which was concerned about the P.L. 480 program. The major part of the shortfall, the auditors found, was caused by delays of the Liberian implementing agency, the Liberia Produce Marketing Corporation (LPMC), in depositing counterpart funds. The delay was attributable to

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some misuse of the commodities and to the fact that the LPMC extended credit to high-risk, private rice distributors instead of requiring cash and/or payment of outstanding arrears prior to receipt of the rice. Despite the fact that many of those loans are considered uncollectable because distributors have gone out of business or no longer have liquid balances, or other reasons, A.I.D. has held the GOL responsible for repayment of the entire amount. Although deposits specified under a repayment agreement are behind schedule, the GOL has since paid all but $3.9 million of the shortfall. The most recent payment of $1.9 million was made March 13, 1987; the final $3.9 million is expected to be rescheduled as part of the FY 1987 P.L. 480 agreement and paid within one year. Problems found in the audit did not recur under the FY 1985 program or to date under the FY 1986 program.

The report highlights "unauthorized and undocumented withdrawals of approximately $1.7 million from the fiscal year 1986 account" and disbursement of funds from that account without A.I.D. concurrence. FY 1986 commodities are still being sold to Liberian consumers. As of the end of March 1987 about $20 million in sales proceeds had been deposited, of which $8.1 million had been paid out to development projects being implemented by A.I.D. and other donors, and $3.78 million (including the $1.7 million mentioned above) had been paid for shipping and handling. The report accurately portrays problems with documentation and compliance with the FY 1986 Memorandum of Understanding (MOU). However, it should be understood that the MOU is an instrument designed to assist A.I.D. in the process of carefully monitoring the program; it does not substitute for Mission accounting efforts. Non-compliance in any given area serves as a trigger for even greater accountability efforts. Subsequent to the departure of the GAO field team from Liberia, proper documentation was completed and a mutually agreed upon list of projects to benefit from counterpart funding was certified. Since April of 1985 when the Agriculture and Cooperative Development Bank special account mechanism was first employed, USAID has been able to account for all disbursements from the special account to the project accounts. The procedure agreed upon with the GOL for disbursing counterpart involves writing a check on the special account and depositing it into the account of the project. USAID receives a copy of the cancelled check and is thus able to determine whether or not disbursements have been made to the agreed-upon list of projects.

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-- Economic Support Fund

The report notes (1) failure to establish special accounts for initial grant funds, as required; (2) use of $12 million in initial ESF grants to purchase offshore oil even though grant agreements had designated the funds for the support of specific development ministries; (3) difficulties in accounting for and accurately reporting on over $50 million in counterpart funds; and (4) failure to comply with debt payment agreements in some instances. The Africa Bureau memorandum presents a detailed discussion of these points, including some statistical information which may not have been available to the GAO team during its time in Liberia. In any event, a brief review of the history of the ESF program might be useful. In the early 1980's, U.S. ESF funds reimbursed Liberia for the purchase of offshore oil. The two agreements in 1980 did not call for the establishment of a special account. The GOL, as agreed with the U.S. Government, used the proceeds from local sale of the oil, i.e. the ESF counterpart funds, to support development projects. ESF has not financed oil imports since late CY 1982. No counterpart funds have been generated since that time because ESF dollars have been used to service international debt, a use which does not generate sales proceeds. The GAO report mentions somewhat offhandedly that controls over FYs 1985 and 1986 were "adequate". In earlier discussions, GAO representatives stated that they believed the possibilities of diversion or misuse of ESF were "minimal or non-existent" during that period. We think the latter is a more accurate portrayal and believe the draft report should be modified to reflect this.

With regard to the difficulties in accounting for and reporting on over $50 million in counterpart funds in the early 1980's, we would like to state that we believe the entire amount of ESF counterpart funds generated since between FY 1980 and FY 1984, a total of $80 million, has, in fact, been accounted for. The GAO is correct in that A.I.D. and the GOL have had a great deal of difficulty in tracking ESF counterpart funding. Recognizing these problems and moving to do something about them long before the GAO audit was scheduled, A.I.D. and the GOL undertook a painstaking series of reviews of project revenues and expenditures. By mid-1985, $80 million in counterpart funding had been reconciled and was attributed to GOL disbursements to 139 development projects. We request that the GAO report note these actions.

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Now on p. 4

To update information on page 7, you should know that $5.2 million of the $10.2 million in obligated but undisbursed FY 1986 ESF funds is being deobligated. The remaining $5 million is being held for possible future use in Liberia when and if conditions precedent to its disbursement are met.

Now on p. 4

With regard to the comment on page 6 concerning pressure on A.I.D. to quickly provide large amounts of ESF assistance to the new government, we note that, given the very real USG political interests in Liberia, as outlined in the GAO report, the Department of State was anxious to help the post-1980 government, which was new and inexperienced, establish greater stability and move as rapidly as possible toward constitutional civilian rule. U.S. assistance has been an important tool in this endeavor, and progress has been made.

-- Report Recommendations

A.I.D. concurs with the thrust of the recommendation to improve controls over counterpart funds and will work with the Government of Liberia to put in place the kinds of controls recommended by the GAO report. I have asked Ray King, the Africa Bureau Controller, to go to Liberia sometime within the next few months to work with the A.I.D. Mission on implementing additional controls. They will review a number of possible measures, including those recommended by the GAO, in order to achieve stronger control. In carrying out negotiations on this matter with the GOL, it may be necessary for AID to develop alternatives to the specific GAO recommendations. For example, with regard to the recommendation to deposit counterpart funds in a commercial bank not affiliated with the Liberian Government, we would like to note that counterpart funds are legally owned by the Government of Liberia. The Government is sensitive about its independent status and its right to select a depository for its own funds. Most of the development projects which receive counterpart funds have accounts there. Methods for increasing controls within that bank might be explored.

We suggest that the recommendations concerning project plans and semiannual status reports be clarified. It is A.I.D.'s opinion that the most appropriate periodic report should be some kind of financial report rather than a lengthy narrative. A.I.D. requests that the recommendation concerning verification be changed to read, "Agreements should require independent verification of fund uses by a party acceptable to both the Liberian and U.S. governments."

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Thank you for giving us the opportunity to comment on this draft report. I believe you can see from the comments provided that A.I.D. has been concerned about potential misuse of U.S. economic assistance funds in Liberia for many years and has taken a number of significant steps to overcome them. Please do not hesitate to contact me if you have questions or suggestions, and I trust that Mr. Moore will be able to meet with Ms. Richards and Ms. Steele in the near future to review the contents of this letter and the Africa Bureau memorandum.

Sincerely,

Alexander R. Love
Bureau for Africa

Comments From the Department of Defense

DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

27 MAY 1987

In reply refer to:
I-10750/87CT

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and
International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report entitled, "LIBERIA: Poor Accountability and Control over U.S. Assistance," dated April 17, 1987 (GAO code 472116/OSD Case 7241-A).

The Department concurs with the report material that applies to the DoD, and the Department has no further comments.

Sincerely,

PHILIP C. GAST
LIEUTENANT GENERAL, USAF
DIRECTOR

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