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Audit Of Loan Program Financial Statements For Fiscal Years 1971, 1970, And 1969

B-133220

UNITED STATES
GENERAL ACCOUNTING OFFICE

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MAY 18, 1973

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

B-133220

The Honorable John A. Hannah
Administrator, Agency for
International Development 97
Department of State

Dear Dr. Hannah:

This is our report on the audit of the Agency for International Development's Loan Program financial statements as of June 30, 1971.

U-5 Copies of this report are being sent to the Senate Committee S0130 on Foreign Relations, the House Committee on Foreign Affairs, H01113 and the Senate and House Committees on Appropriations and Government Operations. H<300 S S1500

Copies are also being sent to the Director, Office of Management and Budget; the Secretary of State; the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations; and the Foreign Operations Subcommittee of the Senate Committee on Appropriations.

Sincerely yours,

Director
International Division

Enclosure

Contents

ABBREVIATIONS

AID	Agency for International Development
GAO	U.S. General Accounting Office
OPIC	Overseas Private Investment Corporation
LAIS	Loan Accounting Information System

GAO REPORT TO THE ADMINISTRATOR, AID

AUDIT OF LOAN PROGRAM FINANCIAL STATEMENTS FOR FISCAL YEARS 1971, 1970, AND 1969
Agency for International Development
B-133220

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D I G E S T

WHY THE REVIEW WAS MADE

The AID Loan Program, with a total of $15 billion in outstanding loans at June 30, 1971, is a very significant element of the total United States foreign assistance effort. GAO's earlier reviews indicated a basic need for improvement in the Agency's accounting, financial control processes, and financial reporting.

The Foreign Assistance Act of 1961, as amended, required that for loans made under that authority, an integral set of accounts shall be maintained which shall be audited by the General Accounting Office in accordance with principles and procedures applicable to corporate commercial transactions.

This report, relating to fiscal years 1971, 1970, and 1969, is based on examining records in Washington, D.C., and in four AID Missions--New Delhi, India; Islamabad, Pakistan; Manila, The Philippines; and Saigon, Vietnam.

FINDINGS AND CONCLUSIONS

AID's Loan Program has unique aspects which do not lend themselves to conventional evaluation processes and which significantly affect its financial position. It also has unique problems.

Assets are shown on the financial statements at their full face value although the face value does not purport to represent the realizable value of the loans.

The purposes and conditions of AID's loans make them subject to the vagaries of the future to such a degree that losses cannot be reliably predicted. Consequently, conventional or generally accepted accounting principles applicable to the establishment of reserves for losses in commercial activities have little relevance here. We believe the basis for stating reserves adopted by AID is reasonable under these conditions, but it should not be interpreted as having any particular relationship to the amounts of probable future losses.

Although GAO recognizes that AID's Loan Program is not operated for profit or to break even but to make loans to assist undeveloped countries, it believes there should be full disclosure in financial statements and that reasonably reliable accounting records should be maintained.

In GAO's opinion, AID's system of accounting and internal control during this period could not be fully relied upon to

--provide adequate assurance that Loan Program assets are properly accounted for or to

Tear Sheet. Upon removal, the report cover date should be noted hereon.

--produce reliable overall financial statements and management reports for internal and external use.

There was a high incidence of error in the accounts during this period, caused in part by problems arising from conversion to a mechanized system.

Certain balances on AID's statement of financial condition were either overstated or understated because of errors and deficiencies in the accounting records.

GAO believes that major improvement is needed in the reliability of the Agency's loan accounting system, and that the Agency should place more emphasis on the value of financial reports for management purposes.

RECOMMENDATIONS AND SUGGESTIONS

During this review GAO made numerous suggestions to the AID Controller or other AID units for corrections of weaknesses in the accounts and control procedures.

In its summary report herewith, GAO recommends that the Administrator of AID:

--Place greater emphasis on improvements necessary for reliability of the Loan Program accounting system and related internal controls.

--Establish procedures for producing informative overall annual financial reports of lending program activities and submitting them to the Office of Management and Budget and to the Congress.

--Establish priorities to insure that the Auditor General makes periodic reviews of the Loan Program financial statements and operating results.

AGENCY ACTION AND UNRESOLVED ISSUES

AID agreed that there were deficiencies in the products produced by its present loan accounting system. However, much attention and considerable resources had been devoted to correcting these deficiencies. AID also said the draft report seemed to confirm that most of the significant problems had been overcome and that, consequently, AID's management of the Loan Program did not suffer from the loan accounting system deficiencies.

AID questioned whether the Loan Program accounting operations should continue to be governed by the provisions of the Government Corporation Control Act.

GAO believed that significant problems in AID's loan accounting, internal control, and financial reporting had not been overcome and accordingly makes recommendations to the Administrator as stated above.

CHAPTER 1

INTRODUCTION

The General Accounting Office audited the Agency for International Development (AID) Loan Program financial statements for fiscal years 1971, 1970, and 1969, pursuant to section 635(g)(5) of the Foreign Assistance Act of 1961 (22 U.S.C. 2395).

This is the third report on AID's Loan Program financial statements. The first report (B-133220, Mar. 11, 1966) covered fiscal years 1962 through 1964. In our second report (B-133220, Sept. 11, 1969), which covered fiscal years 1965 through 1968, we concentrated on reviewing the principal lending activities in order to make a meaningful evaluation of the status of the Loan Program at June 30, 1968. We did examine into the validity of the loan balances shown on AID's statement of financial condition as of June 30, 1968, and found that they fairly presented the recognized amounts owed by the borrowers.

We issued a report to the AID Controller on March 1, 1972, pointing out questionable practices and procedures being used at selected overseas Missions in carrying out their responsibilities in administering and accounting for loans. A copy of our transmittal letter along with the Controller's response, dated June 2, 1972, are included as appendix I.

Throughout our review we worked informally with representatives of the Controller to point out specific weaknesses or errors that we observed in the accounting and reporting for the Loan Program and made informal suggestions for their correction. Many of the items brought to their attention were corrected and are not detailed in this report.

The principal officials responsible for the administration and accounting for the Loan Program during the period covered by our audit are listed as appendix IX.

CHAPTER 2

AID'S LOAN PROGRAM

The two principal legislative authorities under which AID may currently make loans are the Foreign Assistance Act of 1961, as amended, and the Agricultural Trade Development and Assistance Act of 1954, as amended, commonly known as Public Law 480. Loans made under the Foreign Assistance Act are funded from annual dollar appropriations, and loans made pursuant to Public Law 480 are funded from the foreign currency proceeds accruing to the United States from the sale of surplus agricultural commodities.

In addition to the responsibility for administering loans made since 1961, the Agency also is responsible for administering loans made pursuant to several other legislative authorities in existence at various times since the foreign assistance program was initiated following World War II. A description of the various legislative authorities is presented as appendix III. A summary of outstanding loan balances by legislative authority for fiscal years 1969-71 is presented as appendix II.

As pointed up by the AID Controller in his comments on our proposed report, the AID Loan Program is not a corporate entity, nor is it designed as a self-sustaining operation within the broad purposes of making loans to developing countries on concessional terms to assist in their economic development.

Notwithstanding the broad purposes and varied elements of the program there is a clear and continuing need for reliable and informative financial accounting and reporting on the results of its operation.

With respect to loans made under the Foreign Assistance Act, Section 635(g) of the Foreign Assistance Act of 1961 (22 U.S.C. 2395) requires that in making loans under the Act, the President

> "shall cause to be maintained an integral set of accounts which shall be audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions as provided by the Government Corporation Control Act, as amended."

The Loan Program as currently administered consists of dollar and foreign currency loans to foreign countries, autonomous foreign agencies, and private enterprises in foreign countries to promote economic and social development in the less developed areas of the world and to help maintain economic and political stability in the world.

PROGRAM ADMINISTRATION

The AID Administrator is responsible for administering the Loan Program, which includes the preparation of the financial statements. The financial responsibility of the program was redelegated to the AID Controller in April 1964. Since that time the Controller has assigned the basic financial operational responsibilities to the International Loan Branch, recently redesignated as the Loan Management Division.

Cooley Loan administration

In May 1971 the Administrator redelegated the responsibility for administering the Cooley Loan Program (one of the seven sub-programs of AID's Loan Program) to the Overseas Private Investment Corporation (OPIC), a corporation created by the Foreign Assistance Act of 1969 (Public Law 91-175, Dec. 30, 1969) and established in January 1971 by Executive Order 11579.

The redelegation provided OPIC with the authority (under section 104(e) of Public Law 480) to authorize, negotiate, execute, amend, and implement loan agreements and other related agreements; to make collections under such loan agreements; and to make related approvals and determinations. In addition, the delegated authority extended to prior loans entered into under section 104(e) by AID and the Export-Import Bank of the United States.

Under the terms of the delegation, OPIC and AID agreed that (1) AID's practices and procedures would no longer be applicable to the Cooley loans, (2) OPIC's administration would be guided by the applicable legislation, its own policies and procedures, and the provisions of the loan agreements, (3) AID would provide OPIC such supporting field staff services as mutually agreed upon to administer the loans, and (4) AID would pay OPIC's costs for administering the loans. The accounting responsibility for the Cooley loans, however, remains with AID.

STATUS OF THE LOAN PROGRAM AT JUNE 30, 1971

The Loan Program had a total of 1,908 signed loan agreements at June 30, 1971, as follows:

	Dollar values (billions)
Signed loan agreements	$20.2
Actually disbursed	18.5
Principal repayments	2.4
Adjustments due to exchange rate fluctuations	1.0
Outstanding loan balances	15.1

A summary of the status of loan agreements at June 30, 1971, is included as appendix VI. The outstanding loan balances at that date were distributed among the various subprograms as illustrated in chart I.

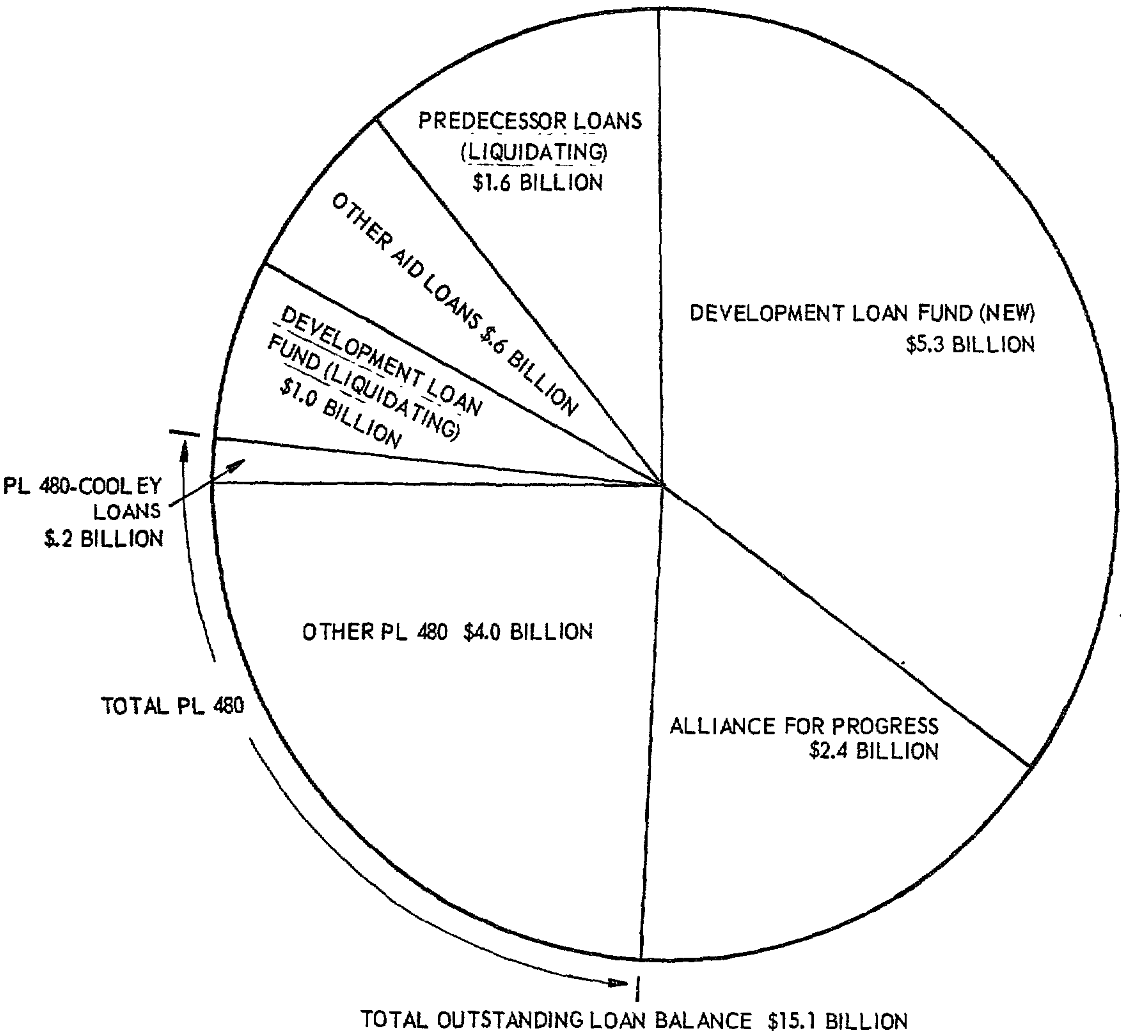
PRINCIPAL LENDING TRENDS

The trend in AID's outstanding loans during fiscal years 1969-71 continued to shift from foreign currency to dollar loans as summarized in chart II. Dollar loans increased from 56 percent to 63 percent as a direct result of a $2.4 billion increase in dollar loans compared with a $51 million increase in foreign currency loans. Also contributing to this shift was the conversion of $9 million from foreign currency loans to dollar loans.

Foreign currency loans outstanding remained fairly constant, with disbursements amounting to $606 million and repayments and exchange rate losses amounting to $412 million and $134 million, respectively.

CHART I

DISTRIBUTION OF OUTSTANDING LOAN BALANCES BY SUB-PROGRAMS AS OF JUNE 30, 1971



Prepared by U. S. General Accounting Office from records maintained by The Agency For International Development.

As illustrated in chart II, foreign currency loans, subject to exchange rate losses, increased from $2.9 billion in 1968 to $3.2 billion at June 30, 1971. The aggregate of these loans increased despite the reductions in their value caused by changes in the exchange rates during the period.

GEOGRAPHIC DISTRIBUTION OF LOAN CHANGES

About 89 percent of the additional dollar and foreign currency lending during fiscal years 1969-71 occurred in 16 countries throughout the world. Chart III identifies these countries and illustrates all additional lending during the period, segregated between dollar loans and foreign currency loans.

The Near East and South Asia region continued to receive the heaviest activity during the period, with India, Pakistan, and Turkey receiving 55 percent of the total new disbursements. At June 30, 1971, the Indian loan balance accounted for about $5 billion of the total $15.1 billion in loans outstanding, and the Pakistan loans accounted for $1.9 billion.

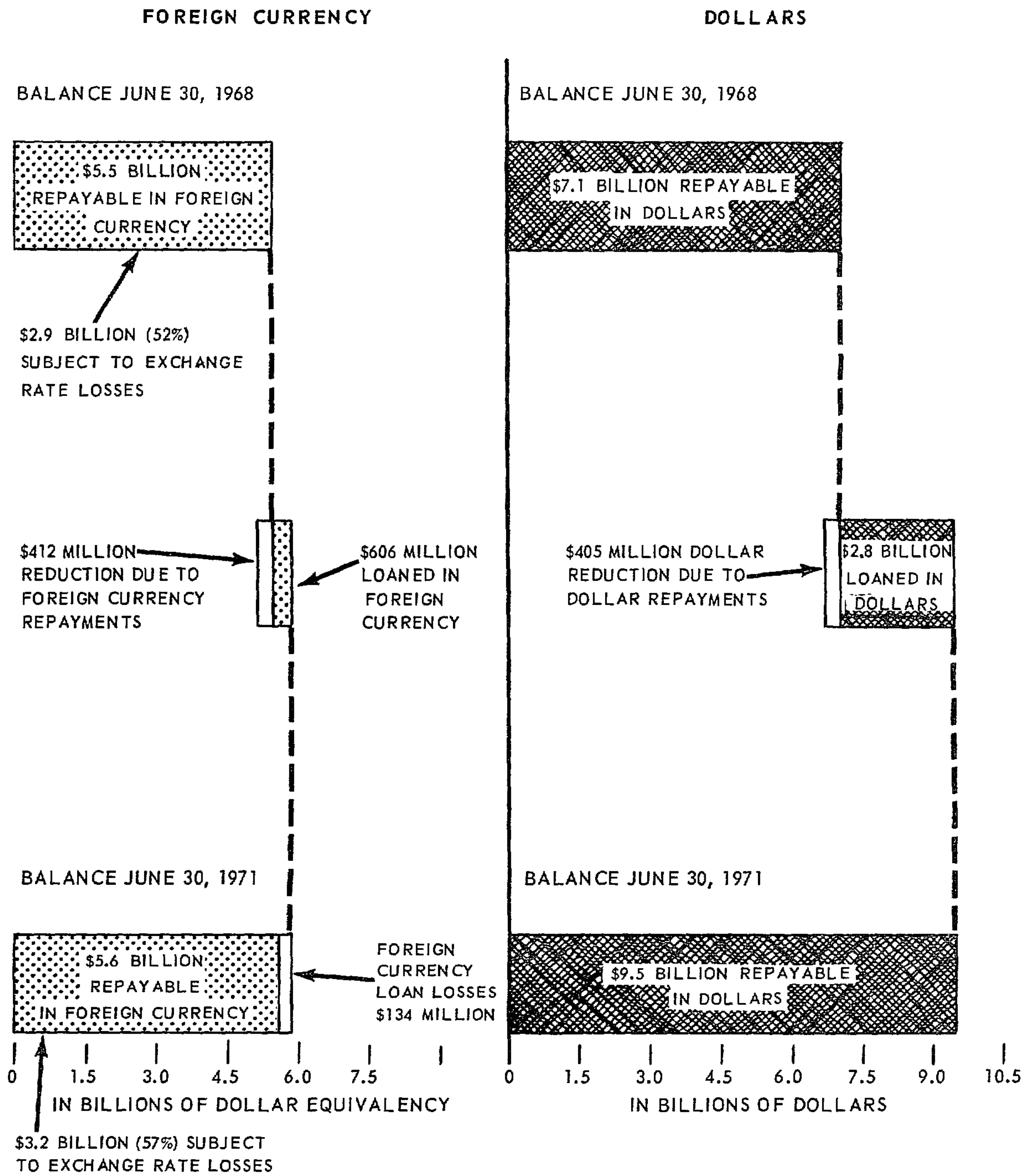
The Latin American region was the second largest recipient of new dollar loans and also had the largest number of countries receiving $24 million or more of new dollar loans. Brazil led the region, followed closely by Colombia.

Although the European region received no new loans, European countries continued to owe significant amounts of both types of loans. At June 30, 1971, the outstanding balance of loans to European countries totaled $594.7 million for dollar loans and $496.9 million for loans repayable in foreign currencies.

CHART II

MAJOR LOAN CHANGES

FISCAL YEARS 1969-71

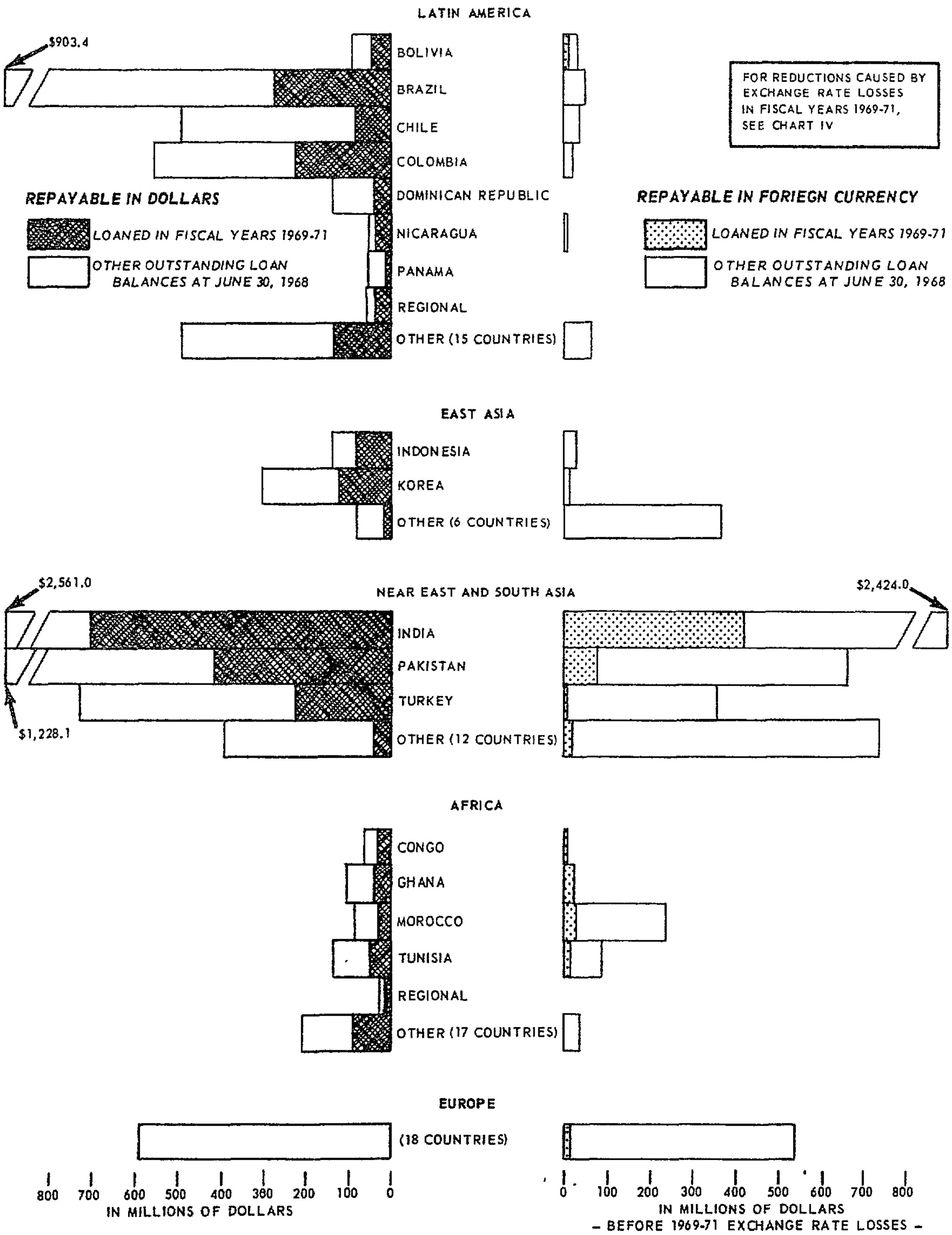


Prepared by the U.S. General Accounting Office
from records maintained by the Agency for International Development

CHART III

PRINCIPAL BORROWERS OF LOAN FUNDS

FISCAL YEARS 1969-71



Prepared by the U.S. General Accounting Office
from records maintained by the Agency for International Development

SALE OF LOAN MATURITIES

In June 1971, AID sold portions of six loans to the Federal Republic of Germany, receiving $31,250,000 in cash. The proceeds from the sale are not available to AID for relending purposes.

Pertinent data concerning these loans and the amounts are summarized below.

Loan number	Borrower	Unpaid balance at date of sale	Portion of loan sold	Percentage of unpaid balance sold
		(In millions)		
132-B-001	Belgium	$ 26,455	$ 3,165	12.0
136-B-001	Denmark	24,840	5,413	21.8
144-B-001	Ireland	61,201	14,586	23.8
144-B-002	Ireland	29,706	4,324	14.6
148-B-001	Norway	15,625	1,875	12.0
150-B-001	Portugal	15,142	1,886	12.5
Totals		$172,970	$31,250	18.1

The sale of these loan maturities was part of a larger transaction between the United States Government and the Federal Republic of Germany which included the sale of certain loan maturities held by the Export-Import Bank.

The loan maturities sold by AID become due in 1979, 1980, and 1981. The sale was made without recourse to the United States, and AID will continue to administer the loans until they are fully repaid. The borrowers have been informed of the sale of the loan maturities to the Federal Republic of Germany.

CHAPTER 3

COMMENTS ON FINANCIAL STATEMENTS

The financial statements included in this report as schedules 1 through 5 (pp. 33 to 39) are the same as those prepared by AID. They represent a consolidated presentation of (1) AID's and its predecessor agency's dollar-lending authorizations and (2) the translated dollar equivalents of local currency and loans and assets. We made some minor modifications in the statements to improve the presentation in this report. Certain suggestions made by us concerning information which should be disclosed on the financial statements were accepted by AID and incorporated in the final statements for fiscal year 1971.

Our examination of the statement of financial condition of the Loan Program as of June 30, 1971, and the related statements of income and expenses, reserved and unreserved retained earnings, changes in non-interest-bearing capital, and the source and application of funds for fiscal years 1971, 1970, and 1969 was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The examination was made at AID headquarters in Washington, D.C., and at four selected overseas Mission offices.

REALIZABLE VALUE OF THE LOAN PROGRAM ASSETS UNDETERMINABLE

AID's Loan Program has unique aspects arising from the purposes of the foreign assistance efforts, which do not lend themselves to conventional evaluation processes and which significantly affect the program's financial position. Although the Loan Program assets are shown in the June 30, 1971, statement of financial condition at their fullface value, they do not necessarily represent the realizable value of the loans at that date.

AID's experience has shown that losses are incurred on loans and that fluctuations occur in foreign currency exchange rates to such an extent that the values of some of the assets are undeterminable. These two matters are discussed below.

Reserve for loan losses

A large portion of the loans made by AID have been made directly to foreign governments or are guaranteed by foreign governments and provide for a 10-year grace period in repayment of principal. Because of the undeterminable future economic and foreign exchange conditions of the developing countries and the 10-year grace period, there have not been sufficient experience factors to reasonably estimate probable future loan losses for failure to repay loan principal. In lieu of establishing a reserve for loan losses based on experience, AID has used an alternate method for establishing a reserve for loan losses.

The statement of financial condition shows that approximately $341 million of the U.S. Government investment at June 30, 1971, has been designated as a reserve for loan losses.

The amount reserved represents the accumulated retained earnings of the Alliance for Progress and Development Loan Programs. No charges are made to the reserve, as the direct chargeoff method is used and actual writeoffs of uncollectible loans and interest are shown as other charges in the income statement when they occur. (See notes 5 and 6 to the financial statements.)

The size of the reserve has been determined by the amount of accumulated earnings from development loans authorized by the Foreign Assistance Act of 1961, which permits AID to retain interest collections on development loans although the interest is derived from non-interest-bearing capital. Although this legal authority has made it possible to set aside some of the earnings in a reserve, the amount available for the reserve is automatically limited by the earnings covered by the retention authority.

The purposes and conditions of AID's loans make them subject to the vagaries of the future to such a degree that losses cannot be reliably predicted. Consequently, conventional or generally accepted accounting principles applicable to the establishment of reserves for losses in commercial activities have little relevance here. We believe the basis for stating reserves adopted by AID is reasonable under these conditions, but it should not be interpreted as having any particular relationship to the amounts of probable future losses.

Fluctuations in foreign currency exchange rates

The dollar value of foreign currency assets (about $5.8 billion of the total $17.3 billion) on the June 30, 1971, statement of financial condition represented the value of these assets as computed in accordance with exchange rates prescribed by the U.S. Treasury Department for that date. About $3.2 billion of these foreign currency assets consisted of loans and interest receivable, which are repayable in foreign currency without maintenance-of-value provisions, generally running for an extensive period of years. An additional $139.8 million of these assets consisted of foreign currency cash balances which are subject to fluctuations even before they are disbursed as loans.

During fiscal years 1971, 1970, and 1969, the net aggregate exchange rate loss amounted to approximately $144.2 million. These losses are the result of declines in the value of foreign currency monetary units in relation to the dollar and consist of (1) the loss in value of loans and interest which are repayable in foreign currency without maintenance-of-value provisions, (2) the loss in value of foreign currency cash balances in the Loan Program accounts, and (3) the exchange rate losses in foreign currency transactions carried out under the Loan Program.

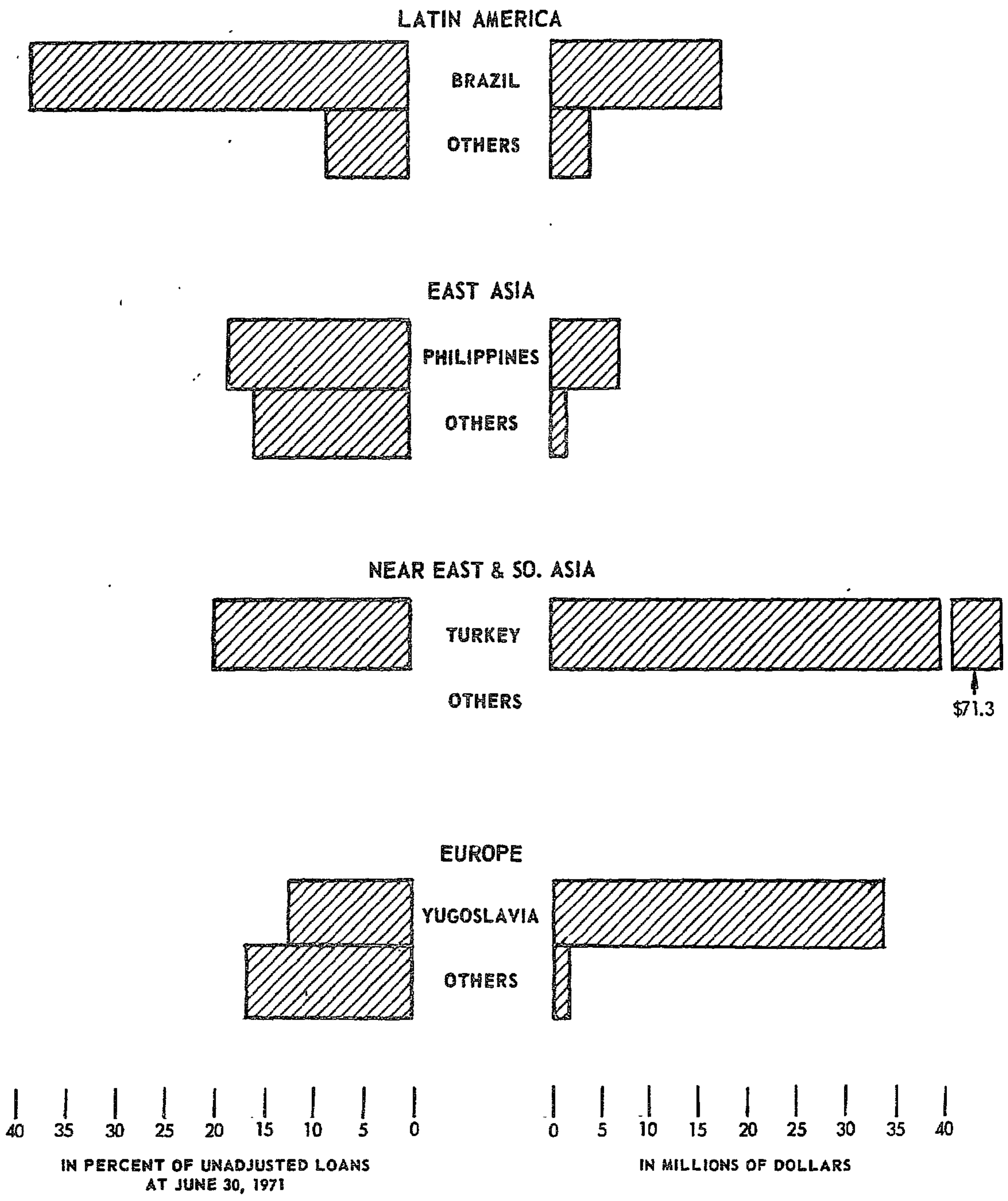
As of June 30, 1971, four countries accounted for 96 percent of the exchange rate losses on foreign currency loans. Chart IV identifies these countries and the relative size of each reduction compared with the unadjusted foreign currency loan balances.

In terms of dollars, Turkey and Yugoslavia accounted for the largest exchange rate losses during fiscal years 1969-71. These losses amounted to $71.3 million for Turkey and $34.1 million for Yugoslavia.

In terms of relative size of reduction, Brazil showed the largest percentage of exchange rate losses to its unadjusted foreign currency loan balance at June 30, 1971. Brazil has received over $204.5 million of foreign currency disbursements, and as of June 30, 1971, the balance of these loans amounted to $30.5 million. The decline in the loan balances resulted from exchange rate losses of $171 million and repayments of $3.1 million.

CHART IV

EXCHANGE RATE LOSSES ON FOREIGN CURRENCY LOANS FISCAL YEARS 1969 - 1971



Prepared by U. S. General Accounting Office from records maintained by the Agency for International Development

In contrast, it should be noted that three countries, which historically have shown significant amounts of exchange rate losses, had a substantial decrease in exchange rate losses during this period. India, Israel, and the United Arab Republic (Egypt) accounted for $427.1 million, or more than 61 percent of the exchange rate losses in the 1965-68 period. However, the exchange rate losses for these three countries amounted to only about $37,600 for the current period, even though the outstanding loan balances remained at the same level.

In the 1965-68 period, the Republic of the Congo accounted for $16.1 million in exchange rate losses, but this position was reversed to a gain on exchange rate for the 1969-71 period. Ghana, Morocco, Pakistan, and Sudan have also reversed from losses to gains on exchange rates in the 1969-71 period.

ALLOCATION OF ADMINISTRATIVE EXPENSES

AID does not allocate general administrative expenses to the Loan Program and other programs. Therefore, we believe that the net income shown in the financial statements for fiscal years 1969-71 is overstated by an undetermined amount by the omission of a fair share of administrative costs.

According to AID's accounting manual, administrative expenses, insofar as their relationship to the Loan Program is concerned, can be divided into the following three categories.

Category I -- applies exclusively or amost exclusively to functions concerned with loan operations.

Category II -- applies exclusively or almost exclusively to functions not concerned with loan operations.

Category III -- applies to functions concerned with both loan and other operations.

We found that, in allocating these expenses to the Loan Program, AID considered only those directly related to loan operations; i.e., those expenses falling in category I. No consideration was given to allocating a portion of the cost of employees engaged in such general administrative-type activities as accounting, personnel, and related activities.

In our opinion, a proper allocation of such costs to the Loan Program is necessary to arrive at a fair estimate of the amount of administrative expense applicable to the program.

In essence, the present system results in a reasonable direct charge for the employees who spend most of their time directly on the Loan Program; however, the system does not provide for allocating any of the general overhead to the Loan Program.

To provide more meaningful information on the financial results of AID's operations, we suggested that AID reevaluate its methods and procedures for allocating administrative expenses to insure that all elements of administrative expenses are fairly allocated between the Loan Program and other programs.

Although AID did not believe that the administrative expenses allocated to the Loan Program were inadequate, it did state that, given the staff availability to develop cost allocations, a further review may be in order to reassure the agency of the adequacy of its allocation procedures.

WRITEOFF OF WAIVED LOAN REPAYMENTS

The Foreign Assistance and Related Programs Appropriation Act of 1971 (Public Law 91-619) waived principal repayments of $1.8 million due in calendar years 1971 and 1972 for eight loans totaling $25.8 million, made to two Israeli educational institutions between March 1962 and August 1967. The act stated, in part, that:

> "* * * the payments due in 1971 and 1972 on loans made for the benefit of the Weizmann Institute of Science and the Bar Elan University by the Agency for International Developement from funds available under title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 3 80), are hereby waived."

As of June 30, 1971, AID's records showed that only about $400,000 of the waived repayments had been written off, leaving about $1.5 million as part of the outstanding loan receivable balance. In addition, accrued interest of about $108,000 was recorded for the waived repayments that were not written off. AID's failure to write off the entire

$1.8 million of the waived repayments has resulted in the loan receivable balance being overstated by about $1.5 million and the accrued interest receivable and interest income by about $108,000 in the fiscal year 1971 financial statements.

The loans were written off as they became due rather than writing off the entire amount in 1971 when Public Law 91-619 was enacted into law. We found that the practice for handling the writeoffs was based on a recommendation made by AID's General Counsel in January 1971 to the Controller's office that:

> "* * * the appropriate accounting adjustments be made on the subject loans decreasing the amounts due and owing by the amounts waived, <u>as the payments come due</u>." (Underscoring supplied.)

There is nothing in the waiver provision in the law itself which requires that the amounts be written off at any particular time. It is our view, however, that since the law itself waived the payments due for the years in question the payments due for such years were, in effect, canceled on the date the law was enacted and hence, in accordance with sound accounting principles and practices, all the waived repayments should have been written off at the time the waiver provision was enacted into law.

<u>WRITEOFFS OF UNCOLLECTIBLE LOANS</u>

AID's procedures for writing off uncollectible loans state, in part, that:

> "The Regional Assistant Administrator having jurisdiction is responsible for determining that an AID loan is administratively uncollectible and for forwarding an action memorandum to the Deputy Administrator recommending the writeoff of the loan from the official accounts of the Agency."
>
> *   *   *   *   *
>
> "Based on specific criteria and guidelines established by the Regional Assistant Administrator, the responsible loan officer or other designated bureau officials takes prompt follow-up action and other administrative measures to effect collection of the AID loan concerned."

AID informed us that the regional bureau officials responsible for reviewing delinquent loans as to their collectibility did not have any written criteria or guidelines to implement these procedures. In our opinion, the absence of such written guidelines has hindered the implementation of these procedures.

We believe that every available means should be taken to collect the loans; but, when they are determined to be uncollectible, the financial records should indicate this.

In commenting on the 14 loans set forth in appendix V, AID stated that subsequent to June 30, 1971, it had written off approximately $3 million of the total $8.8 million and was actively considering writing off an additional $4 million.

AID has informed us that responsible loan management officials are notified periodically of all delinquent loans and that, beginning in fiscal year 1972, the National Advisory Council, a Government-wide policymaking group, will be informed semiannually of actions taken by the appropriate offices to effect collection on these delinquent loans.

Our examination of the initial reports furnished to the Council showed that they did not include date and comments on all the delinquent loans. For example, we noted that the type of collection action taken or planned for was not reported for 29 of the 97 (about 30 percent) loans reported as delinquent at June 30, 1971.

ACCRUED INTEREST RECEIVABLE

We found that the accrued interest receivable, totaling $102.4 million on the statement of financial condition at June 30, 1971, was subject to a considerable margin of error, principally from (1) computation errors and omissions, (2) using incorrect loan balances in computing the interest accrual, and (3) failing to accrue interest on unapplied disbursements and collections. According to AID officials these were caused mainly by a deficiency in the original computer specification, and those discovered were manually adjusted for financial statement purposes.

On the basis of our test, we believe that the data prepared and adjustments made by AID still leave considerable doubt as to the reliability of the interest balances shown on the statement of financial condition and the statement of income and expense.

The computation errors in the accrued interest receivable balances reported as of June 30, 1971 and 1970, arose mainly from (1) using incorrect interest rates, particularly on two-step loans, (2) incorrectly calculating the number of days for which interest was to be accrued, and (3) incorrectly accruing interest on late interest payments.

We tested about $16 million of the $102.4 million of accrued interest receivable shown on the June 30, 1971, statement of financial condition and found errors totaling about $1.6 million, representing both overstatements and understatements of interest accruals on individual loans. We also tested about $29.4 million, or about 30 percent, of the accrued interest receivable shown on the June 30, 1970, financial statements, and found errors totaling about $3.2 million.

Our test of the interest reported by AID as due and unpaid from foreign borrowers as of June 30, 1971, showed that approximately $298,000 concerning eight borrowers was omitted from the accrued interest receivable account.

During our examination of the interest reported by the agent banks as due under various Cooley loans as of June 30, 1971, we found 10 instances wherein the banks' interest receivable balances differed with AID's balances by approximately $665,000 (See app. VII.) We were unable to reconcile these differences from information contained in AID's loan files. We brought this matter to the attention of the AID officials who indicated that the agent banks would be contacted and attempts made to reconcile the differences.

Accrued interest receivable was understated because AID did not consider in the accrual computations unapplied disbursements and collections representing transactions recorded in the general ledger but not in the individual loan records. The unapplied disbursements totaled about $9.6 million as of June 30, 1971. Unapplied collections totaled about $2 million.

AID in commenting on our report indicated that the following corrective actions have been taken.

1. Computer program specifications for the accrued interest report have been revised and submitted to the Office of Data Systems for implementation.

2. The monthly delinquency report will be used as a further check on the accrual of interest on delinquent loans included in the accrual interest report.

3. The differences between agent bank and AID reports on accrued interest have been reconciled and adjustments made to update the computer files.

4. Agent bank billings are being monitored through a memorandum billing provided by the computer loan accounting information system.

CHAPTER 4

COMMENTS ON THE MECHANIZATION OF

AID'S LOAN ACCOUNTING SYSTEM

In February 1968 GAO approved the design of AID's proposed loan accounting system and the related principles and standards described in the system manual. The approval did not include the segment relative to mechanizing the loan program accounts because AID planned to redesign the mechanized portion. The approval was limited to the system as written and final approval was deferred until it had been installed and tested in actual operation.

Subsequent to the design approval, AID employed a contractor to develop the mechanized portion of the loan accounting system, referred to as the Loan Accounting Information System (LAIS). Essentially, the contractor was required to (1) analyze, program, test, and document LAIS using detailed specifications furnished by AID and (2) furnish AID with required hard-copy and magnetic-tape reports. The total contract cost was about $167,400, and at the time of our review the mechanized portion of the system had been installed and was operational.

The actual operation of LAIS was transferred from the contractor and accepted by AID in February 1970. When it was accepted from the contractor as being complete, AID was aware that it contained certain program imperfections. According to AID officials, these imperfections were the result of deficiencies in the detailed specifications furnished to the contractor. AID decided that the most expedient method for correcting the imperfections would be to have the work performed in-house rather than by the contractor.

We found that actual implementation of LAIS had been delayed because of problems in purifying the specifications. AID officials were optimistic that the imperfections had been eliminated and expected that LAIS should be functioning properly in the near future.

During this purification period, LAIS has been producing management reports containing significant elements of erroneous data. Our comments below are directed to two of those reports which we examined.

STATUS OF TWO-STEP LOANS REPORT

Two-step loans are contractual agreements involving three parties: the foreign private borrower (referred to as the first-step borrower), the foreign government (referred to as the second-step borrower), and the agency. AID classifies them into the following three categories.

> Category 1--involves direct lending to a government or government-related entity for relending chiefly to the revenue-producing enterprises.
>
> Category 2--involves direct lending to a revenue-producing enterprise which has responsibility for payment of the loan currency to the country government. The country government, under a separate payment agreement with AID, assumes the obligation to make payment in dollars.
>
> Category 3--involves direct lending to a revenue-producing enterprise with the borrower's obligation to pay the loan in local currency to the country government. The country government's obligation to make payment in dollars to AID is assumed as part of a single three-party agreement covering the obligations of both first- and second-step borrowers.

We noted that as of June 30, 1971, 71 category 1 loans, having outstanding balances of about $470 million, were excluded from the two-step loans report because the necessary information regarding the first-step borrower was incomplete. According to an AID official, considerable additional effort would be required to complete category 1 loans reporting because of the varying types of relending arrangements, lack of available data, and complexity of assembling such information.

Information obtained during our confirmation of outstanding loan balances showed that differences existed between the amounts of principal, interest, and capitalized interest reported by the second-step borrowers and the amounts shown in AID's report. For example, our examination of the confirmation data received on 28 loans from the Government of Brazil (the second-step borrower) showed that except for eight loans having zero balances, none of the principal repayment amounts were in agreement. The report listed $20.3 million in principal repayments made by first-step borrowers to the Government of Brazil and our loan confirmation from the Government of Brazil showed $30.4 million had been received from first-step borrowers, a difference of $10.1 million.

Interest payments shown in the report as being collected from first-step borrowers were different from the amounts confirmed by the Government of Brazil on 26 of the 28 loans. The report listed a total of $19.4 million interest paid by first-step borrowers to the Government of Brazil and our loan confirmation showed $27.9 million had been received, a difference of $8.5 million.

AID officials agreed that problems existed with the accuracy and completeness of the data in the report. We were informed that a high priority had been placed on correcting the two-step loan program deficiencies because of the effect they might have on other reports generated by LAIS.

ACCRUED INTEREST REPORT

One of the reports affected by the problems encountered with the Loan Program is the accrued interest report. We found that a major portion of the data in the June 30, 1971, report was in error and subsequently had to be manually corrected before it could be used for financial reporting purposes.

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Commenting in September 1972 on our report and the problems traceable to imperfections in the mechanization of the system, AID stated in part that:

> "We recognize that the computerized reports issued during the period under review did not contain accurate data. There were a number of factors involved, incorrect data as well as imperfect computer programs * * *.

"We cannot accept the auditor's statement that the system was operational, since it was not producing acceptable reports for management purposes. Nor can we accept the unqualified statements that the reports produced during this purification period contained erroneous and misleading data since necessary corrections were made manually to provide accurate data for the loan managers.

"A study is currently underway to evaluate the further need for this report in light of the recent policy decision of the agency on the matter."

We disagree with the Agency's comment that LAIS was not operational at the time of our review. Although AID may have been dissatisfied with some aspects of the system when it was accepted as complete in February 1970, it was installed and producing management-type reports that were being used in managing the Loan Program. We believe that AID would not have accepted LAIS and paid the contractor $167,400 if the Agency did not consider the system operational. Also the Agency's statement that the erroneous reports produced by the system were manually corrected is not entirely correct. A 15-percent test of the June 30, 1971, accrued interest report showed that approximately $5.3 million was in error. Of this amount, AID manually adjusted about $3.7 million, leaving about $1.6 million (30 percent) uncorrected.

We believe that if LAIS is to be of maximum value to AID by serving the needs of management for complete and accurate data, the current system problems should be resolved promptly. The errors we found clearly demonstrate that refinements are needed. AID indicated that these problems should be resolved soon, so we are not making any recommendations at this time.

CHAPTER 5

OVERALL FINANCIAL MANAGEMENT OBSERVATIONS AND RECOMMENDATIONS

We primarily examined the financial statements at June 30, 1971, and tested the intervening years of 1969 and 1970. We believe that the matters presented and the status of AID's posture toward its loan accounting and financial management demonstrate the need for increased emphasis on fundamental improvement of its financial management and control procedures, including the following points.

THE NEED FOR OVERALL FINANCIAL STATEMENTS AND REPORTING

The Director of the Office of Financial Management stated that our report did not properly disclose that the Loan Program is not a corporate entity and is not operated or managed as an individual self-sustaining or revenue-producing operation but consists of additional appropriation accounts that are made available for loans to developing countries on concessional terms to assist their economic development.

We recognize that the Loan Program is not a self-sustaining Government corporation to be operated on a profit or breakeven basis. Our position is that AID financial statements and reports should fully and accurately disclose the current financial condition and results of operations in accordance with the intent of the Foreign Assistance Act and that the supporting accounting system should provide reliable and complete information so that AID can effectively discharge its internal and external financial management responsibilities.

Heretofore, overall financial statements of the type included in this report, or that would be included normally in an annual operating report giving a concise overall financial picture and results of activities, have been considered by AID as being primarily prepared to satisfy GAO's needs. We believe this is a misplaced emphasis and that the need and management value are for AID, the Office of Management and Budget and for the Congress for use in general management and evaluative considerations. Therefore, we believe AID should establish the means for producing informative and reliable annual overall financial reports on the results of its lending activities and the consolidated financial position of its lending program.

A broadbased financial reporting concept could and should be an integral part of an annual, broadly conceived, operating and financial stewardship report from the Administrator to the Office of Management and Budget and the congressional committees responsible for these loan programs. For full management value, such a report would require procedures for bringing together reliable annual financial information, and its operating implications, within a reasonable time after the close of each fiscal year and before the convening of the next Congress.

INTERNAL AUDIT OF ANNUAL FINANCIAL STATEMENTS

The President's foreign aid message in 1969 stated the need for establishing "better means of continuous management inspection" in AID. To further the President's purpose, the AID Administrator on June 16, 1969, established the Office of the Auditor General to insure effective management. This action contemplated a continuing emphasis on the management benefits to be gained from continuing top-level review, a comprehensive internal audit program.

We understand that, because of other priorities and work demands, the audit work of the Auditor General during 1969-71 pertaining to the Loan Program was directed toward the borrowers' performance under the various loan agreements rather than toward the centralized accounting and fiscal operations of the program.

In addition to the planned audit of the Loan Program operations, AID incorporated specific procedures in its accounting manual requiring the International Loan Branch (an organizational element of the Office of the Controller) to make procedural checks twice each fiscal year to verify the accuracy of the loan accounting information.

In discussions with Agency officials, we were informed that no internal audits had been made of Loan Program centralized accounting and fiscal operations and no semiannual checks had been made of the Loan Program accounting information. The heavy demand of higher priority assignments and the lack of sufficient manpower for these job requirements were the reasons given for not making the internal checks and audits.

In commenting on this matter on September 15, 1972, AID stated that the Auditor General made over 500 audits, citing 1,921 deficiences of Loan Program activities during fiscal years 1969-71. Of these deficiencies, 520 related to the general area of financial management. Within the 520, 279 related to the financial management areas more relevant to our report and 24 dealt specifically with principal and interest repayment problems.

AID indicated that, because GAO was making periodic financial audits of the Loan Program, greater priority was given by the AID auditors to operational audits of significant loans rather than to strict financial audits. The numerous audits made by the Auditor General and the fact that GAO was making a financial audit caused AID to feel there was sufficient audit coverage during the period covered by our review.

We recognize that the Auditor General has audited various aspects of the Loan Program activities, principally directed toward the borrower's performance under individual loan agreements, but the point we are raising is that there have been virtually no internal audits of the centralized accounting and financial reporting or fiscal functions of the Loan Program notwithstanding AID's stated plans for such auditing.

We believe that, as a part of his broad purpose, the Auditor General should make periodic reviews of the financial statements and operating results of the Loan Program, since management is primarily responsible for the accuracy and validity of its financial reports.

Such reviews would not duplicate the work performed by us in carrying out our responsibilities. During our examinations, the work of the Auditor General would be utilized to the fullest extent deemed appropriate.

In commenting on the fact that the International Loan Branch was not making the required internal check procedures, AID stated that it planned to delete these procedures from the accounting manual because it felt the edit features of the present mechanized system were more comprehensive than those presented in the manual and manual reconciliations of data were currently performed on a routine basis. We believe the internal check procedures should not be abandoned. The procedural checks set forth in its accounting manual are an essential part of the system of internal control, and, as such, they are designed to verify the accuracy and validity of loan accounting data rather than editing the data after it is in the mechanized system. For example, some of the internal check procedures in the manual are (1) examining source documents supporting noncash charges and credits, (2) verifying loan disbursements, collections, and billings, (3) verifying the foreign exchange rates used for foreign currency transactions, and (4) examining selected batches of data processing transactions.

We did not make a detailed study of AID's plan to delete these procedures from the accounting manual. However, if the planned changes in internal control features materially affect the accounting system initially approved by GAO in 1968, such changes should be resubmitted for approval.

RECOMMENDATIONS

The size and complexities of the Loan Program, considered in conjunction with the weaknesses we have pointed out, in our opinion call for increased emphasis on financial management, improved accounting and more reliable reporting. Therefore, we recommend that the Administrator of AID, to improve accounting, financial management, and reporting practices:

- --Place greater emphasis on improvements necessary for reliability of the Loan Program accounting system and related internal controls.
- --Establish procedures for producing informative overall annual financial reports of lending program activities and submitting them to the Office of Management and Budget and to the Congress.
- --Establish priorities to insure that the Auditor General makes periodic reviews of the Loan Program financial statements and operating results.

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Concerning the latter recommendation we have been informed that the Auditor General has commenced an audit of the financial statements and operating results of the Loan Program for fiscal year 1972.

SCHEDULES

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF FINANCIAL CONDITION

FOR LOAN PROGRAM

AS OF JUNE 30, 1971

A S S E T S

FUND BALANCES WITH U.S. TREASURY (note 1)		$ 1,992,095,930
CASH IN TRANSIT (note 1)		4,970,100
FOREIGN CURRENCIES IN FOREIGN BANKS (notes 1 and 2)		139,831,507
ADVANCES MADE UNDER SPECIAL LETTER OF CREDIT		579,577
INTER-FUND ADJUSTMENTS IN TRANSIT		134,706
INVESTMENTS (note 11)		4,007,202
LOANS RECEIVABLE (notes 2, 3, 4):		
Repayable in U.S. Dollars	$9,461,309,605	
Repayable in Foreign Currencies:		
With maintenance of value	2,392,914,183	
Without maintenance of value	3,199,966,268	15,054,190,056
ACCRUED INTEREST RECEIVABLE (notes 1, 2, 3, 4):		
Payable in U.S. Dollars	44,350,764	
Payable in Foreign Currencies:		
With maintenance of value	30,383,792	
Without maintenance of value	27,648,219	102,382,775
Total Assets		$17,298,191,853

The notes to the financial statements on pages 40 to 43 are an integral part of this statement.

L I A B I L I T I E S

INTEREST PAYABLE ON BORROWINGS FROM U.S. TREASURY	$ 2,449,056	
PRINCIPAL REPAYMENTS AND INTEREST COLLECTIONS SUBJECT TO TRANSFER TO U.S. TREASURY AND DEPARTMENT OF AGRICULTURE (note 1)	3,569,836	
ACCOUNTS PAYABLE--OTHER	67,053	
ACCRUED ANNUAL LEAVE (note 7)	499,101	
Total Liabilities		$ 6,585,046

U.S. G O V E R N M E N T I N V E S T M E N T

INTEREST-BEARING CAPITAL: Borrowings from U.S. Treasury ($61,634,134 Repaid to U.S. Treasury During Fiscal Year 1971)	450,633,028	
NON-INTEREST-BEARING CAPITAL FROM DOLLAR APPROPRIATIONS AND FOREIGN CURRENCY ALLOCATIONS (SCHEDULE II)	17,889,286,073	
ACCUMULATED LOSSES (SCHEDULE III)	(1,389,610,910)	
RETAINED EARNINGS RESERVED FOR LOAN LOSSES (SCHEDULE III AND (note 5)	341,298,616	
Total U.S. Government Investment		17,291,606,807
Total Liabilities and U.S. Government Investment		$17,298,191,853

SCHEDULE II

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

STATEMENT OF CHANGES IN NON-INTEREST-BEARING CAPITAL

FOR THE FISCAL YEARS ENDED JUNE 30, 1969, 1970, AND 1971

	Fiscal year 1971		Fiscal year 1970		Fiscal year 1969	
BALANCE AT BEGINNING OF FISCAL YEAR		$17,559,530,834		$17,067,979,649		$16,606,546,495
Add.						
Capital subject to transfer to U.S. Department of Agriculture and Treasury at June 30		885,789		11,847,985		6,068,075
Prior year adjustments to principal collections		(145,345)		-		-
Capital subject to payment of accrued annual leave June 30		584,181		583,655		-
Adjustment to June 30 balance		6,409,353		-		-
Less:						
Population Grant Funds thru June 30 (note 10)		(81,704,417)				
ADJUSTED BALANCE AT JUNE 30		17,485,560,395		17,080,411,289		16,612,614,570
Add:						
Appropriation of U.S. dollars:						
Development Loan Fund and Alliance For Progress	624,392,356		555,000,000		555,000,000	
Transfers from other A.I.D. appropriations	13,306,153	637,698,509	-	555,000,000	14,633,183	569,633,183
Allocations of foreign currencies:						
Transfers from Treasury in accordance with the Agricultural Trade Development Assistance Act:						
Section 104 (E)	(8,376,015)		1,937,626		52,840,475	
Section 104 (F)	49,540,970	41,164,955	123,961,151	125,898,777	29,161,469	82,001,944
		~~18,164,423,859~~		17,761,310,066		17,264,249,697
Less:						
Capital credited to U.S. Treasury:						
Principal collections		(145,429,540)		(154,692,080)		(170,305,233)
Capital credited to other agencies and funds:						
Principal collections credited to U.S. Department of Agriculture		(7,930,977)		(8,481,881)		(7,827,175)
Capital transfers to other Government agencies		(74,221,900)		(30,000,000)		(5,706,000)
Capital transfers to other A.I.D. appropriations		(44,600,000)		(7,135,301)		
Capital subject to transfer to U.S. Treasury at June 30		(2,456,268)		(885,789)		(11,847,985)
Capital subject to payment of accrued annual leave		(499,101)		(584,181)		(583,655)
BALANCE AT END OF FISCAL YEAR		$17,889,286,073		$17,559,530,834		$17,067,979,649

The annual statements included on this schedule were prepared by the Agency.

The notes to the financial statements on pages 40 to 43 are an integral part of this statement.

SCHEDULE III

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF CHANGES IN UNRESERVED RETAINED EARNINGS (ACCUMULATED LOSSES)

AND RETAINED EARNINGS RESERVED FOR LOAN LOSSES

FOR LOAN PROGRAM

FOR THE FISCAL YEAR ENDED JUNE 30, 1971

	Total	U.S. dollars	Foreign currencies (in dollar equivalents)
UNRESERVED RETAINED EARNINGS (ACCUMULATED LOSSES)			
BALANCE AT JUNE 30, 1970	$(1,304,009,734)	$ 57,807,655	$(1,361,817,389)
ADJUSTMENTS:			
Adjustment to June 30, 1970 Balance	(6,409,353)	-	(6,409,353)
Prior year Adjustment Recorded in Fiscal Year Ended June 30, 1971	57,425	51,710	5,715
Interest Collection Subject to Transfer to U.S. Treasury at 6-30-70	549,125	-	549,125
Prior Year Adjustment to Interest Collections	145,345		145,345
ADJUSTED BALANCE AT JUNE 30, 1970	(1,309,667,192)	57,859,365	(1,367,526,557)
Add:			
Net Income for the Fiscal Year Ended June 30, 1971 (Schedule IV)	176,545,759	112,169,692	64,376,067
Administrative Expenses Funded by Separate Appropriations	5,413,458	5,413,458	-
Less:			
Interest Collections Credited to U.S. Treasury and the Department of Agriculture	(177,821,332)	(15,057,749)	(162,763,583)
Interest Collections Subject to Transfer to U.S. Treasury and Department of Agriculture	(1,113,568)	-	(1,113,568)
Transfer to Retained Earnings Reserved for Loan Losses	(82,968,036)	(82,968,035)	-
Balance at June 30, 1971	$(1,389,610,910)	$ 77,416,731	$(1,467,027,641)
SUMMARY OF RETAINED EARNINGS RESERVED FOR LOAN LOSSES (note 5)			
BALANCE AT JUNE 30, 1970	$ 240,777,409	$240,777,409	
Add:			
Population Planning Expense thru June 30, 1970 (note 10)	17,553,172	17,553,172	
Transfers During Fiscal Year 1971	82,968,035	82,968,035	
Balance at June 30, 1971	$ 341,298,616	$341,298,616	

The notes to the financial statements on pages 40 to 43 are an integral part of this statement.

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

STATEMENT OF INCOME AND EXPENSES

FOR THE FISCAL YEARS 1969, 1970, 1971

	Fiscal year 1971		Fiscal year 1970		Fiscal year 1969	
INCOME:						
Interest earned on loans:						
In U.S. dollars		$129,043,101		$118,069,610		$105,393,471
In foreign currencies		177,907,666		191,316,011		172,731,992
Interest earned on foreign currencies on deposit with foreign banks		497		2,309		11,739
Other income		-		393,451		84,408
Total income		$306,951,264		$309,781,381		$278,221,610
EXPENSES:						
Fees of Department of State Inspector General for monitoring Foreign Assistance Program		677,279		569,000		460,000
Interest on borrowings from U.S. Treasury		9,169,990		10,334,080		11,143,017
Administrative expenses: (note 7)						
Personal compensation and benefits	$4,809,500		$5,338,023		$5,681,736	
Travel and transportation	311,500		298,477		277,671	
Printing and supplies	12,620		15,500		11,900	
Cooley Loan Administration	221,260		-		-	
Other contractual services	-		28,451		49,494	
Accrued annual leave expense	(85,080)		526		4,984	
Rent and communications	45,778		62,693		-	
Computer services	97,880	5,413,458	59,923	5,803,593	-	6,025,785
Grant program expenses (note 10):		-		12,475,668		4,136,852
Total operating expenses		15,260,727		29,182,341		21,765,654
Excess of total income over operating expenses		291,690,537		280,599,040		256,455,956
OTHER CHARGES (note 6):						
Exchange rate adjustments on current assets		2,525,765		2,163,893		2,775,330
Exchange rate adjustments on loans		110,939,597		11,927,378		13,830,918
Uncollectible loan losses (note 6)		1,612,683		130,606		584,231
Other expenses		66,733		-		-
Total other charges		115,144,778		14,221,877		17,190,479
Net income		$176,545,759		$266,377,163		$239,265,477

The statements included on this schedule were prepared by the Agency.

The notes to the financial statements on pages 40 to 43 are an integral part of this statement.

AGENCY FOR INTERNATIONAL DEVELOPMENT

SOURCES AND APPLICATION OF FUNDS

FOR LOAN PROGRAM

	Fiscal Year Ended June 30, 1971		Fiscal Year Ended June 30, 1970		Fiscal Year Ended June 30, 1969	
FUNDS APPLIED:						
Disbursements of Loans:						
In U.S. Dollars	$890,870,375		$906,358,937		$968,629,696	
In Foreign Currency	130,238,561	$1,021,108,936	146,673,577	$1,053,032,514	329,868,103	$1,298,497,799
Capitalized Interest During Year:						
In U.S. Dollars	$ 1,294,417		$ 518,217		$ 4,414,482	
In Foreign Currency	456,970	1,751,387	128,327	646,544	98,072	4,512,554
Repayments of Borrowings from U.S. Treasury		61,634,134		32,081,546		93,551,341
Interest Paid or Accrued		9,169,989		10,334,080		11,143,017
Fees of Inspector General		677,279		569,000		460,000
Exchange Rate Adjustments (notes 2 & 6)		2,525,765		2,163,893		2,775,330
Prior Year Adjustments--Net		(58,093)		(2,915,573)		1,379,246
Other Adjustments--Foreign Currency		-0-		391,478		83,114
Investments		3,998,303		-0-		-0-
Uncollectible Loan Losses and Waivers (note 6)		1,612,683		130,606		584,231
Grant Program Expenses (note 10)		-0-		12,475,668		4,136,852
Other Expenses		66,733		-0-		-0-
Total Funds Applied		$1,102,487,116		$1,108,909,756		$1,417,123,484

The statements included on this schedule were prepared by the Agency.

The notes to the financial statements on pages 40 to 43 are an integral part of this statement.

SCHEDULE V

	Fiscal Year Ended June 30, 1971		Fiscal Year Ended June 30, 1970		Fiscal Year Ended June 30, 1969	
FUNDS PROVIDED:						
Appropriated Capital		$ 624,392,357		$ 555,000,000		$ 555,000,000
Transfers from A.I.D. Appropritions		13,306,153		-0-		14,633,183
Foreign Currency Allocations from U.S. Treasury		41,164,955		125,898,778		82,001,944
Repayment of Loans:						
In U.S. Dollars	$139,565,258		$113,169,338		$151,934,394	
In Foreign Currencies	142,330,042	281,895,300	139,414,509	252,583,847	130,927,155	282,861,549
Interest Earned on Loans:						
In U.S. Dollars	$129,043,101		$118,069,610		$105,393,471	
In Foreign Currencies	177,907,666	306,950,767	191,316,011	309,385,621	172,731,992	278,125,463
Loan Repayments and Interest Collections to U.S. Treasury:						
In U.S. Dollars	$(12,918,172)		$(30,404,012)		$(76,647,780)	
In Foreign Currencies	(300,188,880)	(313,107,052)	(305,644,286)	(336,048,298)	(301,013,805)	(377,661,585)
U.S. Department of Agriculture:						
In U.S. Dollars		(18,074,798)		(20,131,682)		(22,199,018)
Capital Transfers to Other A.I.D. Appropriations		(44,600,000)		(7,135,301)		-0-
Capital Transfers to Other Government Agencies		(74,221,900)		(30,000,000)		(5,706,000)
Loan Repayments and Interest Collections Subject to Transfer to U.S. Treasury and Dept. of Agriculture		(3,569,836)		(1,434,914)		(11,847,985)
Sub-Total		814,135,946		848,118,051		795,207,551
Interest Earned on Foreign Currencies on Deposit With Foreign Banks		497		2,309		11,739
Other Income		-0-		393,450		84,408
Net Changes in Other Assets and Liabilities		73,973,386		16,847,582		268,956,430
Net Decrease in Cash		214,377,287		243,548,364		352,863,356
Total Funds Provided		$1,102,487,116		$1,108,909,756		$1,417,123,484

AGENCY FOR INTERNATIONAL DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS

FOR LOAN PROGRAM

AS OF JUNE 30, 1971

Note 1 The Status of Fund Balances with U.S. Treasury and in Banks, Cash in Transit and Accrued Interest Receivable are as follows:

	Fund Balances with U.S. Treasury	Cash in Transit	Foreign Currencies in Foreign Banks	Accrued Interest Receivable Available for Relending	Total
Undisbursed Obligations[a]	$1,569,613,160	$	$ 80,802,310	$	$1,650,415,470[a]
Committed for Loan Authorizations	383,304,504	930,185	11,172,693	2,165,311	397,572,693
Uncommitted Funds Available for Lending	39,176,844	471,422	10,339,367	36,791,934	86,779,567
Expired Loan Funds - PL 480, Subject to Transfer to U.S. Treasury	-	-	37,517,137	-	37,517,137
Principal and Interest Collections Subject to Transfer to U.S. Treasury & Dept. of Agriculture	1,343	3,568,493	-	-	3,569,836
Available for Payment on Borrowings from U.S. Treasury	579,655	-	-	-	579,655
Funds Restricted by Special Letters of Credit for Disbursements in Connection with Specific Loans	(579,576)	-	-	-	(579,576)
	$1,992,095,930	$4,970,100	$139,831,507	$38,957,245	$2,175,854,782

[a]As of June 30, 1971, outstanding loan agreements (Net of Disbursements) amounted to $1,675,159,603. Of this amount, $1,650,415,470 is on hand and available for future loan disbursements.

Note 2 Foreign currency cash and non-maintenance of value loans have been translated into U.S. dollar equivalents at rates of exchange prescribed by Treasury Circular 930, revised. Foreign currency maintenance-of-value loans and accrued interest receivable are accounted for in U.S. dollars and are so reported in these statements without the need for translating from the foreign currencies into U.S. dollar equivalents.

A maintenance-of-value loan (MOV) is stated in terms of U.S. dollars but the borrowers have the option to repay the loan in units of foreign currency. The borrower assumes the risk of exchange rate fluctuations or of currency revaluation.

A non-maintenance-of-value loan (NON-MOV) is stated in terms of foreign currency units. The U.S. assumes the risk of foreign exchange losses during the life of the loans. Such loans were funded principally from the proceeds of foreign currency sales of surplus Agricultural Commodities under Title I of PL 480 and Section 402 of the Mutual Security Act, as amended. On these Financial Statements, foreign currency amounts have been converted to U.S. dollar equivalents.

By exchange of letters between the United States of America and the Federal Republic of Germany, and subsequent approval by the Department of State, Treasury Department and A.I.D., the United States of America's right, title and interest in certain promissory notes of Belgium, Denmark, Ireland, Norway and Portugal, having a face value of $31,250,000.00, and maturing between December 31, 1979 and December 1981, were sold to the Federal Republic of Germany on June 15, 1971 as evidenced by Instrument of Transfer of the same date.

Note 3 As of June 30, 1971, ninety-seven (97) loans were due and unpaid 90 days or more. The outstanding balances on these loans amounted to $508,624,583. Installments on these loans amounted to $57,401,823 of principal and $10,905,527 of interest. (See schedule for details.)

Note 4 As of June 30, 1971, twenty-one (21) loans have had certain principal and interest installments deferred. The installments deferred and outstanding amounted to $101,549,934 in principal and $70,811,374 in interest.

Note 5 The retained earnings (or accumulated losses) in these statements reflect results of operations subsequent to June 30, 1961. The retained earnings of predecessor agencies, as of July 1, 1961, are included in the non-interest-bearing capital investment of the U.S. Government. Retained earnings reserved for loan losses represent the total accumulated earnings of the Alliance for Progress and Development Loan Program which are reserved for possible losses due to uncollectibility of loans and accrued interest receivable.

Note 6 Exchange rate loss of $2,525,765 arose on the translation of current assets and foreign currency collections on maintenance of value long term receivables which involved differences in original foreign exchange rates and the currency exchange rates prescribed by Treasury Circular 930 (Revised.)

Exchange rate loss on loans during fiscal year 1971 of $110,939,597 arose from the translation of long term receivables into U.S. dollars at the June 30, 1971 current exchange rate prescribed by Treasury Circular 930 (Revised.)

BEST DOCUMENT AVAILABLE

Note 6 (continued)

During the fiscal year ended on June 30, 1971, interest of $945,707 was written off as uncollectible loan losses. Principal of $405,575 and interest of $261,401 due from Bar Ilan University and the Weizmann Institute were waived by Act of Congress, PL 91-916 dated December 31, 1970 under Title I.

Note 7 Administrative type costs of $5,413,458 directly identified with the loan program are included as an expense on the statement of income. As funds of the loan program are not used for any portion of these expenses, this amount is added back to net income on the statement of changes to unreserved retained earnings.

Accrued annual leave identified to personnel within the loan program is shown as a liability and a reduction of non-interest bearing capital on the statement of financial condition as shown in Schedule II.

Note 8 The amounts outstanding for refunds due to Development Loan Accounts as of June 30, 1971 are as follows:

Alliance for Progress	$ 797,556
Development Loan Fund	3,893,963
Development Loan Fund (Liquidating)	98,676
	$4,790,195

Note 9 The Financial Statements include the Cooley Loan Program which is administered by OPIC under AID Delegation of Authority No. 91 dated May 24, 1971.

Note 10 Pursuant to a change in the method of reporting in Fiscal Year 1971, to include activities pertaining only to the loan program, development loan funds allocated and expended for grant purposes in the Population Growth Program, and heretofore reflected in the annual financial statements, have been excluded from the present financial statements and related schedules.

Note 11 Investments represent Turkish bonds in the amount of $8,899, preferred stock in the amount of $3,998,303 and a warrant in the Bataan Pulp and Paper Mills, Inc. A.I.D. exchanged its interest in the PL 480, Cooley Loan, 429-E-021 for Class B preferred shares of Bataan Pulp and Paper Mills, valued at 5,465,774 Philippine Pesos, equivalent to $848,723, to be redeemed in 20 semi-annual payments beginning October 31, 1971; in the Development Loan, 492-A-006, for Class A preferred shares of Bataan Pulp and Paper Mills valued at $3,149,579 to be redeemed in 40 semi-annual payments beginning October 31, 1971. In addition, A.I.D. received a warrant to purchase 2,500,000 shares of Bataan Pulp and Paper Mills common stock, at a price of forty Centavos per share, if exercised on or before May 1, 1981. Also wherever required by A.I.D., Bataan Pulp and Paper Mills, Inc., shall elect an A.I.D. nominee as a Director.

AGENCY FOR INTERNATIONAL DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS

LOAN PROGRAM

AS OF JUNE 30, 1971

(In thousands)

DUE AND UNPAID BY LOAN PROGRAM AND REGION	90 to 180 days		180 to one year		One to two years		Two to three years	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
A. LATIN AMERICA:	$253.9	$ 87.2	$ 3.0	$ -	$ 466.5	$120.3	$ -	$ -
Alliance for Progress	$ -	$ 27.6	$ -	$ -	$ -	$ -	$ -	$ -
Other A.I.D.	$ -	$ 45.3	$ -	$ -	$ -	$ -	$ -	$ -
Development Loans (Liquid.)	$ -	$ -	$ 3.0	$ -	$ 361.2	$ 12.8	$ -	$ -
Predecessor Agency	$246.9	$ 5.1	$ -	$ -	$ -	$ -	$ -	$ -
Public Law 480 - Cooley	$ 5.5	$ 9.2	$ -	$ -	$ -	$ -	$ -	$ -
Public Law 480 - Other	$ 1.5	$ -	$ -	$ -	$ 105.3	$107.5	$ -	$ -
B. EAST ASIA:	$124.2	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Public Law 480 - Cooley	$124.2	$ -	$ -	$ -	$ -	$	$ -	$ -
C. NEAR EAST AND SOUTH ASIA:	$106.7	$242.2	$365.2	$ 82.2	$1,069.5	$162.8	$16,696.8	$ 65.4
New Development Loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other A.I.D.	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Development Loans (Liquid.)	$ 20.9	$ 8.4	$ 43.3	$ 12.9	$ 986.7	$130.3	$ -	$ -
Predecessor Agency	$ 14.5	$ 35.6	$ -	$ -	$ 1.3	$ -	$ 234.5	$ -
Public Law 480 - Cooley	$ -	$ 2.0	$303.9	$ 52.8	$ 27.4	$ 32.5	$ 330.3	$ 65.4
Public Law 480 - Other	$ 71.3	$196.2	$ 18.0	$ 16.5	$ 54.1	$ -	$16,132.0	$ -
D. AFRICA/EUROPE:	$ -	$ 5.1	$ -	$ 25.3	$1,274.6	$225.9	$ 454.9	$164.2
New Development Loans	$ -	$ .9	$ -	$ -	$ -	$ -	$ -	$ -
Other A.I.D.	$ -	$ -	$ -	$ -	$ 140.3	$ 15.1	$ -	$ -
Development Loans (Liquid.)	$ -	$ -	$ -	$ -	$ 158.0	$ 62.6	$ -	$ -
Predecessor Agency	$ -	$ -	$ -	$ -	$ 216.1	$ 71.8	$ 454.9	$164.2
Public Law 480 - Cooley	$ -	$ -	$ -	$ 25.3	$ 760.2	$ 69.1	$ -	-
Public Law 480 - Other	$ -	$ 4.2	$ -	$ -	$ -	$ 7.3	$ -	-
E. WORLD-WIDE SUMMARY	$484.8	$334.5	$368.2	$107.5	$2,810.6	$509.0	$17,151.7	$229.6
Alliance for Progress	$ -	$ 27.6	$ -	$ -	$ -	$ -	$ -	$ -
New Development Loans	$ -	$ .9	$ -	$ -	$ -	$ -	$ -	$ -
Other A.I.D.	$ -	$ 45.3	$ -	$ -	$ 140.3	$ 15.1	$ -	$ -
Development Loans (Liquid.)	$ 20.9	$ 8.4	$ 46.3	$ 12.9	$1,505.9	$205.7	$ -	$ -
Predecessor Agency	$261.4	$ 40.7	$ -	$ -	$ 217.4	$ 71.8	$ 689.4	$164.2
Public Law 480 --Cooley	$129.7	$ 11.2	$303.9	$ 78.1	$ 787.6	$101.6	$ 330.3	$ 65.4
Public Law 480 - Other	$ 72.8	$200.4	$ 18.0	$ 16.5	$ 159.4	$114.8	$16,132.0	$ -

(In thousands)

Three to four years		Four to five years		Five or more years		
Principal	Interest	Principal	Interest	Principal	Interest	Principal outstanding at 6-30-71
$ 278.2	$ 77.0	$ 1,005.0	$ 401.5	$1,942.4	$ 131.8	$ 30,320.1
$ -	$ -	$ -	$ -	$ 109.4	$ -	$ 6,926.7
$ -	$ -	$ -	$ -	$ -	$ -	$ 4,500.0
$ -	$ -	$ 237.6	$ 26.4	$1,833.0	$ 131.8	$ 6,843.8
$ -	$ -	$ -	$ -	$ -	$ -	$ 246.9
$ 278.2	$ 77.0	$ 767.4	$ 375.1	$ -	$ -	$ 1,715.5
$ -	$ -	$ -	$ -	$ -	$ -	$ 10,087.2
$	$	$	$	$1,087.0	$ 559.4	$ 1,273.3
$ -	$ -	$ -	$ -	$1,087.0	$ 559.4	$ 1,273.3
$5,786.2	$2,601.8	$20,968.6	$4,134.1	$4,310.1	$1,328.1	$461,256.3
$ -	$ 925.5	$ -	$ 303.8	$2,300.0	$ 69.0	$ 42,123.1
$ -	$ -	$17,742.7	$2,669.8	$ -	$ -	$ 23,657.0
$ -	$ -	$ 95.6	$ 16.9	$ -	$ -	$ 8,381.7
$ -	$ -	$ -	$ -	$ -	$ -	$ 14,831.0
$ 483.3	$ 163.5	$ 3,130.3	$1,143.6	$2,010.1	$1,259.1	$ 11,265.1
$5,302.9	$1,512.8	$ -	$ -	$ -		$360,998.4
$1,208.5	$ 490.7	$ -	$ -	$ -	$ -	$ 15,774.8
$ 829.4	$ 116.8	$ -	$ -	$ -	$ -	$ 2,392.0
$ -	$ -	$ -	$ -	$ -	$ -	$ 754.0
$ -	$ -	$ -	$ -	$ -	$ -	$ 158.0
$ -	$ -	$ -	$ -	$ -	$ -	$ 3,241.3
$ -	$ -	$ -	$ -	$ -	$ -	$ 1,562.5
$ 379.1	$ 373.9	$ -	$ -	$ -	$ -	$ 7,667.0
$7,272.9	$3,169.5	$21,973.6	$4,535.6	$7,339.5	$2,019.3	$508,624.5
$ -	$ -	$ -	$ -	$ 109.4	$ -	$ 6,926.7
$ 829.4	$1,042.3	$ -	$ 303.8	$2,300.0	$ 69.0	$ 44,515.1
$ -	$ -	$17,742.7	$2,669.8	$ -	$ -	$ 28,911.0
$ -	$ -	$ 333.2	$ 43.3	$1,833.0	$ 131.8	$ 15,383.5
$ -	$ -	$ -	$ -	$ -	$ -	$ 18,319.2
$ 761.5	$ 240.5	$ 3,897.7	$1,518.7	$3,097.1	$1,818.5	$ 15,816.4
$5,682.0	$1,886.7	$ -	$ -	$ -	$ -	$378,752.6

COPY

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

Mar 1, 1972

Mr. Charles F. Flinner
Controller
Agency for International Development
Department of State

Dear Mr. Flinner:

We currently are examining the financial statements of the Agency for International Development loan program as of June 30, 1971. As part of our examination, we have looked into the manner in which the Agency's overseas Missions are carrying out their responsibilities in connection with the administration of loans under their respective geographic jurisdictions.

Our review was conducted at the overseas Missions located in New Delhi, India; Islamabad, Pakistan; Manila, Philippines; and Saigon, Vietnam, during the period July through December 1971. We reviewed the pertinent Agency regulations, the Missions loan files and memorandum accounting records, and held conferences with the various responsible Mission officials.

During our reviews at the selected Missions, we encountered several instances which we believe indicate that questionable practices and procedures are being followed by Mission personnel in administering loans in the Agency's loan program. These instances deal primarily with (1) the practice of maintaining memorandum loan records at the Mission level, (2) the procedures followed by the Missions in administering the Agency's loans and (3) weaknesses in Mission cashier operations. We also identified another area relative to system design and development efforts being pursued by some of the overseas Missions which, in our opinion, warrants your attention. The specific details are outlined in the attachment to this letter with our suggestions for corrective action.

Since other overseas Missions are also responsible for administering loans, we believe that the weaknesses identified at the four Missions visited may also be present at other overseas Missions.

Copies of this letter with attachment are being sent to the Director, Office of Management and Budget and the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations. We would appreciate receiving your views on this matter and advice as to any steps taken or contemplated by the Agency.

Sincerely yours,

/s/ Frank M. Zappacosta

Frank M. Zappacosta
Assistant Director

Attachment

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

2 JUN 1972

Mr. Frank M. Zappacosta
Assistant Director
International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Zappacosta:

I have reviewed the report titled "Need for Improving the Missions' Administration Practices and Procedures Relative to the Agency's Loan Program" forwarded to me on March 1, 1972 and appreciate the observations and comments which your staff has made.

With respect to the "Questionable Practice of Maintaining Memorandum Loan Records at the Overseas Mission Level", I have been aware for quite some time that loan memorandum record keeping in the field is not a satisfactory procedure, and have devoted much thought to its discontinuance. However, we have not been in a position, until recently, to provide a satisfactory substitute. I believe that you and your staff are fully cognizant of our plan to supplement the mission memoranda records with copies of our computerized loan ledgers, updated monthly. Our Office of Data Systems is currently working on some additional computer programming brought about by revised specifications, and expect that the revised loan ledger and Status of Disbursing Authorization Report will be ready for distribution on a monthly basis very shortly. M.O. 743.8 will then be amended accordingly. Since your recommendation coincides with our plans, it does not appear that further action is required.

There are inferences in your report that the Status of Loan Agreements (W-224) Report contained several errors, e.g. "transactions which occurred late in the quarter... were not included in balances" and "another error of $26,849 in unrecorded interest appeared in the June 30, 1971, report" which "was corrected in the September 30, 1971 report." We cannot concur that the omission of a collection made

GAO note: Corrective action underscored by the General Accounting Office.

after the fixed cut-off date in any particular loan should be considered an error. In order to provide the A.I.D. management offices and borrowers with timely reports, statements and billings, we have established a monthly closing schedule with the Data Systems Office. Any transaction documents received after the cut-off date are processed in the LAIS-1 system during the following month. The collections cited in your report were payments received after the cut-off date - not errors. To hold up closing the accounts to include every single transaction would unduly delay the issuance of reports.

Your suggestion to re-evaluate the practices and procedures being followed by overseas missions in releasing Cooley Loan funds to Agent Banks which may be in excess of the borrower's immediate needs is well taken. However, measures to limit the amount transferred to the Agent Banks on an "as needed" basis, and not in the lump sum amount of the loan, had already been taken. The only exception to this policy is for small loans which would be disbursed in a short time span. US A.I.D.s India and Pakistan were advised of this policy in 1966 and 1969 respectively.

With the decline in Cooley Loan activity, most of the Agent Banks' services are reduced to issuing notices of payments due and to receiving payments from the borrower for transmittal. The only Agent Banks now making Cooley Loan disbursement are in India and Pakistan. We will, however, send reminders to US A.I.D.s India and Pakistan of the extant policy of releasing Cooley Funds to Agent Banks only as needed.

As to your findings on US A.I.D./India operations, we are instructing the responsible official to provide Agent Banks with timely guidance on loan servicing problems. In addition, M.O. 743.8 will be amended to include the requirement that Mission officials visit Agent Banks periodically to discuss problem areas and resolve any servicing problems which banks may be experiencing and report results to A.I.D./W.

The deposit of 4,760 rupees ($626.32) in the First National City Bank of Bombay, India, represents the initial deposit (which A.I.D. made to each Agent Bank in November 1961) to establish an A.I.D. account to be used in servicing Cooley loans when the Cooley Loan Program was transferred to A.I.D. from the Export Import Bank of Washington, D. C. The Agent Bank in Bombay, India, is one of only two banks currently holding such deposits. The other deposit, in the amount of 4,750 rupees ($989.59), is in the American Express International Banking Corporation in Karachi, Pakistan. These two Agent Banks are being requested to immediately return the deposits to A.I.D. It is our observation, however, that in view of the fact that the U.S. holds India and Pakistan rupees so greatly in excess of needs, the benefits to be derived from the early return of these two deposits would appear rather insignificant.

At the present time, the First National City Bank of Bombay, India is the only Agent Bank that fails, at times, to transfer loan collections promptly to the U.S. Disbursing Officer. Our letter of May 25, 1971, called to the attention of the Bank's officials the Agency's requirement for prompt transfers to USDO. The US A.I.D. Controller is being instructed to follow-up with the Agent Bank to expedite transfers, and we are amending M.O. 743.8 to include such follow-up as a monitoring responsibility of Mission Controllers. Since this appears to be an isolated case, we do not believe any further action is required on this recommendation.

With respect to the delays by the Reserve Bank of India and the State Bank of Pakistan in reporting collections, as noted in your report, we will contact the US A.I.D. Controllers in both these countries to obtain further details to arrive at a resolution of the problem, and will advise you of results.

We have taken notes of your findings on the Cashier Operations. As a result we have sent a circular airgram to all Mission Controllers requesting that they review their Cashier functions and take whatever action is necessary to ensure compliance with A.I.D. Manual Order 751.1.1.

Although the US A.I.D./Manila Cashier may have omitted the 260,000 ($41,000.00) loan collection which he received on June 30, 1971, from his undeposited collections as of that date, he sent a cable notification to A.I.D./W of the collection. On the basis of the cable advice, C/ACC/ILB recorded the collection in the General Ledger as a June, 1971 transaction, therefore, contrary to your stated opinion, the $41,000.00 collection was not omitted from the Fiscal Year 1971 financial statements and there was no $41,000.00 mis-statement.

In general, your suggestions on the loan operations are appreciated although the findings are limited to a certain country or countries within an area. While most of your suggestions are not related to procedures and practices currently followed by Agent Banks and US A.I.D.s generally, we are, as a safeguard, incorporating several of them into our Manual Order 743.8.

The Office of Data Systems shares the concern of the General Accounting Office that duplication of automated data systems efforts could occur in Mission offices overseas. This concern was one of the basic reasons that the Director of the Office of Data Systems held a meeting of computer technicians in Bangkok, Thailand in February, 1971, as referenced in the GAO report. At the meeting a general agreement was reached that Missions engaged in major systems development activities would share their findings with other Missions to minimize the possibilities of duplication of effort. For example, it was agreed that US A.I.D./India would take the lead role in developing Mission Participant Training systems. Copies of the India system were supplied to a number of US A.I.D.s by the Office of International Training. However, the Office of Data Systems is limited to an advisory role in US A.I.D. ADP activities and acts in this capacity primarily when advice is requested by an overseas Mission; but a regional data processing concept is currently being studied and the results could well lead to greater participation in US A.I.D. automated data systems activities by the Washington office.

In your report you state, "... we became aware that the Agency had previously developed a payroll system in Washington called the 'Heliodyne' system which could be adapted by the overseas Mission for their local payrolls." The "Heliodyne" Foreign National Payroll System was developed and programmed in Washington to run on our IBM 360 system. These programs cannot run on the smaller IBM 1401 in India. In the opinion of our data processing personnel, the effort required to scale down and reprogram the IBM 360 programs so that they could be run on the IBM 1401 would require as much effort, if not more, than the direct automation of the Mission's manual payroll system.

Without specific details, our Data Systems Staff cannot evaluate your remarks about the adequate system documentation in India except to say that good documentation is essential. DS/SD will recommend to the contractor and to US A.I.D. personnel that immediate steps be taken to proceed with the documentation of the current systems; and request that an information copy of the documentation be furnished to the A.I.D./W Data Systems Office for review and possible use by other missions.

Sincerely yours,

Charles F. Flinner
Controller

SCHEDULE SHOWING THE TOTAL OUTSTANDING LOAN

BALANCES BY LEGISLATIVE AUTHORIZATION FOR FISCAL YEARS

1969, 1970, and 1971

Description	June 30, 1971	
ALLIANCE FOR PROGRESS DEVELOPMENT LOANS (Section 251 of the Foreign Assistance Act of 1961)		$ 2,392,791,329.87
DEVELOPMENT LOANS (NEW) (Section 201 of the Foreign Assistance Act of 1961)		5,305,014,814.25
DEVELOPMENT LOANS (LIQUIDATING) (Mutual Security Act of 1957 and 1958)		1,037,780,558.38
PREDECESSOR LOAN PROGRAMS (LIQUIDATING)		1,624,912,134.39
(Mutual Security Act of 1954)	$ 812,896,369.19	
(Other Prior Legislative Authorities)	812,015,765.20	
OTHER AID LOANS		611,511,870.03
(Latin American Development Act)	107,936,870.20	
(Supporting Assistance--Section 401 of the FAA of 1961)	382,358,664.06	
(Contingency FUND--Section 451 of the FAA of 1961)	99,409,492.44	
(Mutual Security Act of 1954)	4,270,186.33	
(International Programs-Chapter 3 of FAA of 1961)	17,536,657.00	
PUBLIC LAW 480 Cooley Loans-Section 104 (e)		162,521,154.96
OTHER PUBLIC LAW 480 LOANS		3,944,444,295.34
(Section 104 (c)--Common Defense)	4,433,952.35	
(Section 104 (f)--Economic Development)	3,930,995,087.09	
(Section 104 (g)--Triangular Trade)	9,015,255.90	
Subtotal		15,078,976,157.22
UNAPPLIED CAPITALIZED INTEREST, DISBURSEMENTS, RECEIPTS, AND CREDITS		(24,786,101.19)
TOTAL OUTSTANDING LOAN RECEIVABLE BALANCES		$15,054,190,056.03

This schedule was prepared by the U.S. General Accounting Office from records maintained by the Agency for International Development.

June 30, 1970		June 30, 1969	
	$ 2,153,776,016.00		$ 1,856,087,796.00
	4,699,510,513.00		4,150,770,011.00
	1,132,981,860.00		1,228,756,560.00
	1,686,327,641.38		1,752,841,872.80
$ 835,839,282.18		$ 853,757,207.90	
850,488,359.20		899,084,664.90	
	604,211,939.00		579,843,593.00
108,164,976.98		108,353,379.21	
379,383,622.96		363,698,161.77	
101,863,968.45		90,433,735.84	
4,459,941.61		7,018,887.18	
10,339,429.00		10,339,429.00	
	163,640,678.00		170,429,354.00
	3,983,854,040.00		3,895,332,353.00
4,507,529.75		4,605,422.14	
3,971,734,281.21		3,883,570,136.69	
7,612,229.04		7,156,794.17	
	14,424,302,687.38		13,634,061,539.80
	(137,388.00)		544,446.24
	$14,424,165,299.38		$13,634,605,986.04

DESCRIPTION OF UNDERLYING LEGISLATIVE AUTHORITIES FOR EACH AID LOAN SUBPROGRAM

Alliance for Progress Development Loans

Section 251 of the Foreign Assistance Act of 1961, as amended, provides separate authority for development assistance to countries and areas in Latin America under the title of "Alliance for Progress." Assistance furnished under section 251 of the act is to be directed toward the development of human as well as economic resources.

Development Loan Fund

Section 201 of the Foreign Assistance Act of 1961, as amended, established the Development Loan Fund to make loans to promote the economic development of less developed friendly countries and areas, with emphasis upon assisting long-range plans and programs designed to develop economic resources and increase productive capacities. This loan program supplanted the one previously administered by the Development Loan Fund Corporation.

Development Loan Fund Corporation (Liquidating)

The Development Loan Fund Corporation was established by the Mutual Security Act of 1957, as amended, to provide financing for economically, technically, and financially sound projects and programs in less developed nations.

Pursuant to the provisions of the Foreign Assistance Act of 1961, as amended, the Development Loan Fund Corporation was abolished as a corporate entity and its assets, liabilities, property, and records were transferred to AID.

Predecessor Loan Programs (Liquidating)

Loans included in this fund were authorized by the following legislation:

- --Mutual Security Acts of 1951, 1953, and 1954,
- --Economic Cooperation Act of 1948 (Marshall Plan),
- --Mutual Defense Assistance Act of 1949,
- --General Appropriation Act of 1951, and
- --India Emergency Flood Aid Act of 1951.

Other AID loans

Included in this fund are loans which are authorized by the following legislation.

--Section 401 of the Foreign Assistance Act of 1961, as amended, which authorizes the furnishing of assistance to friendly countries, organizations, and bodies to support or promote economic or political stability.

--The Latin American Development Act of 1960, which authorizes that loans be made to finance earthquake reconstruction and rehabilitation projects in Chile and schools, water systems, housing, and administrative and fiscal reforms in Latin American countries.

Cooley Loan Fund

The Agricultural and Trade Development and Assistance Act of 1954 (Public Law 480, as amended) is the legislation that authorizes the Cooley loan program.

Foreign currencies received by the United States in payment for surplus agricultural commodities are available for loans to borrowers to develop business and expand trade in foreign countries.

Other Public Law 480 loans

The Agricultural and Trade Development and Assistance Act of 1954 (Public Law 480, as amended) is also the legislation that authorizes other PL 480 loans.

Section 104(g) provides for the use of United States-owned foreign currencies of one friendly country to finance the purchase of goods or services for other friendly countries.

Loans to promote multilateral trade and economic development are made to foreign governments from section 104(f), foreign currency allocations of Public Law 480 sales proceeds.

Consolidating accounts

The consolidating accounts are for recording entries that are required for consolidating the accounts of the individual funds into meaningful financial statements for overall loan operations. They are also used for recording transactions that apply to the loan programs as a whole rather than to individual funds. For example, AID's administrative expenses are funded from separate expense appropriations. The portion applicable to loan operations is for the loan program as a whole and is recorded in the consolidating accounts.

The consolidating accounts are reflected in the consolidated financial statements only. They do not affect the financial statements of the individual funds.

SUMMARY SHOWING 14 LOANS

DELINQUENT FROM 1 TO 7 YEARS

AS OF JUNE 30, 1971

Loan number	Location of borrower	Date loan became delinquent	Delinquent principal and interest	Remarks
511-A-005	Bolivia	May 8, 1964	$1,964,850.03	Loan in default following bankruptcy. Liquidation yielded AID only $22,352.43 on Oct. 20, 1969.
511-L-005	Bolivia	May 8, 1964	109,362.56	Loan in default following bankruptcy.
521-A-003	Haiti	Feb. 7, 1967	264,006.13	Loan in default; most assets have been sold.
271-E-019	Israel	Nov. 1, 1966	5,666.00	Borrower's assets sold. Proceeds insufficient to repay loan.
649-H-003	Somolia	June 30, 1967	937,153.14	Borrower declared bankruptcy in 1968.
664-E-030	Tunisia	Aug. 6, 1969	107,904.76	Amount unlikely to be recovered. Balance to be written off.
608-E-033	Morocco	Mar. 25, 1970	721,377.10	Assets being liquidated by court in bankruptcy proceedings. Estimated recovery is $70,000.
233-E-003	Cyprus	Oct. 25, 1969	38,747.19	Company has been unable to find additional financing and may fold.
386-E-116	India	Sept. 27, 1968	244,017.44	Union Bank reluctant to meet obligations as guarantor.
386-E-175	India	Nov. 8, 1969	152,631.56	In voluntary liquidation. Estimated recovery is zero.
391-E-113	Pakistan	Dec. 10, 1967	159,494.81	Loan in default. Estimated recovery is zero.
492-E-015	Philippines	Sept. 1, 1965	1,646,385.95	Loan in liquidation. Legal action being taken to sell borrower's assets. Estimated recovery is $300,000.
527-E-041	Peru	May 11, 1968	203,508.18	Claim presented at borrower's bankruptcy on Apr. 20, 1971, and to the loan guarantor on Apr. 13, 1971.
386-E-088	India	Aug. 9, 1964	2,291,289.07	Borrower determined insolvent as of June 1969. In Oct. 1969 local government made firm offer to purchase AID's claim against the borrower for approximately $296,053. Offer was still being negotiated as of June 30, 1971.
Total			$8,846,393.92	

SCHEDULE SHOWING INTEREST ACCRUED ON LOANS

CLASSIFIED BY AID AS UNDER LITIGATION

BY THE DEPARTMENT OF JUSTICE, IN BANKRUPTCY,

OR IN DEFAULT AS OF JUNE 30, 1971

Loan number	Location of borrower	Date U.S. filed suit against borrower	Date borrower filed bankruptcy	Accrued interest owed when suit filed or bankruptcy declared	Interest accrued after suit filed or bankruptcy declared
526-E-010	Paraguay	June 1967		$275,286	$ 99,802
669-A-001	Liberia	June 1967		50,133	12,480
608-E-033	Morocco		Oct. 1970	43,292	22,707
386-H-070	India	Feb. 1968		45,039	23,961
386-E-090	India	Feb. 1968		150,725	119,649
386-E-124	India	Feb. 1968		128,215	117,844
Total				$692,690	$396,443

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATUS OF LOAN AGREEMENTS

LOAN PROGRAM

AS OF JUNE 30, 1971

	Signed Loan Agreements: Cumulative To Date Number	Signed Loan Agreements: Cumulative To Date Amount	Signed Loan Agreements: Fiscal year 1971 Number	Signed Loan Agreements: Fiscal year 1971 Amount	Loan Disbursements: Cumulative To Date	Loan Disbursements: Fiscal Year 1971
A.I.D. LOANS:						
Alliance for progress loans repayable in dollars	314	$ 3,096,379,166	24	$213,961,559	$ 2,411,042,777	$ 248,170,470
New development loan accounts repayable in dollars	421	6,185,324,359	28	456,968,809	5,343,521,624	620,045,281
Other:						
Repayable in dollars	58	634,506,587	2	20,315,389	602,544,855	20,464,194
Repayable in local currency W/MOV	4	58,137,981	-	-	58,137,981	-
Repayable in local currency W/O MOV	2	7,265,761	-	-	7,265,761	-
Total A.I.D. loans	799	9,981,613,854	54	691,245,757	8,422,512,998	888,679,945
PUBLIC LAW 480:						
Section 104 (C), (D) & (F):						
Repayable in dollars	27	164,664,549	-	-	164,664,549	-
Repayable in local currency W/MOV	59	978,883,977	-	-	963,338,486	4,158,030
Repayable in local currency W/O MOV	212	4,031,727,090	2	47,592,935	3,993,035,124	96,726,081
Section 104 (E) - Cooley loans						
Repayable in local currency W/O MOV	414	407,577,524	10	14,235,327	356,268,537	29,811,420
Total Public Law 480	712	5,582,853,140	12	61,828,262	5,477,306,696	130,695,531
PREDECESSOR AGENCIES:						
Development loan fund (Liquidating Acct.):						
Repayable in dollars	63	391,850,912	-	601,967	389,589,116	1,200,959
Repayable in local currency W/MOV	160	1,470,929,231	-	(423,742)	1,464,519,683	1,701,220
Repayable in local currency W/O MOV	3	2,285,502	-	-	2,285,502	-
Other:						
Repayable in dollars	102	1,922,566,519	-	-	1,922,566,519	206,750
Repayable in local currency W/MOV	53	711,439,317	-	(29,236)	709,598,358	375,918
Repayable in local currency W/O MOV	16	137,602,035	-	-	137,602,035	-
Total predecessor agencies	397	4,636,673,516	-	148,989	4,626,161,213	3,484,847
GRAND TOTAL	1,908	$20,201,140,510	66	$753,223,008	$18,525,980,907	$1,022,860,323

As of June 30, 1971, $47,650,750 Capitalized Interest is included in Signed Loan Agreements; $47,424,059 in Loan Disbursements and Interest Collections. $1,751,387 was Capitalized in Fiscal Year 1971.

This schedule was prepared by the Agency. It summarizes the detailed information on outstanding loan agreements presented in the Agency report entitled "Status of Loan Agreements".

Loan Repayments		Net Exchange Rate Gain or (Loss)		Outstanding Balance June 30, 1971			Interest Collections	
Cumulative To Date	Fiscal Year 1971	Cumulative To Date	Fiscal Year 1971	Dollars	Foreign Currency with MOV	Foreign Currency without MOV	Cumulative To Date	Fiscal Year 1971
$ 13,420,437	$ 4,324,145			$2,397,622,340			$ 95,675,041	$ 23,992,112
37,335,960	13,370,130			5,306,185,664			220,740,778	54,681,460
49,841,091	11,851,267			552,703,764			53,186,523	8,643,451
3,362,171	885,350				$ 54,775,810		12,418,881	1,936,608
214,479	-	$ (2,781,095)	$ (189,755)			$ 4,270,186	250,923	21,734
104,174,138	30,430,892	(2,781,095)	(189,755)	8,256,511,768	54,775,810	4,270,186	382,272,146	89,275,365
104,722,915	1,897,843			59,941,634			16,923,435	1,324,584
69,782,547	18,825,377				893,555,940		335,044,387	34,053,623
91,099,064	21,520,920	(909,578,113)	(96,638,491)			2,992,357,947	467,998,165	67,591,012
137,354,104	19,144,987	(56,548,849)	(11,940,858)			162,365,585	89,146,412	11,211,745
402,958,630	61,389,127	(966,126,962)	(108,579,349)	59,941,634	893,555,940	3,154,723,532	909,112,399	114,180,964
168,046,742	20,958,132			221,542,375			98,062,522	9,444,432
650,188,234	77,890,404				814,331,448		408,407,012	36,037,508
1,048,824	155,129	(355,514)	(125,387)			881,164	650,599	39,916
999,252,691	78,483,809			923,313,828			638,705,183	23,534,869
79,347,373	11,589,456				630,250,985		293,871,426	24,228,975
69,762,006	998,351	(27,748,643)	(2,045,106)			40,091,386	28,064,753	1,592,921
1,967,645,870	190,075,281	(28,104,157)	(2,170,493)	1,144,856,203	1,444,582,433	40,972,550	1,467,761,495	94,878,621
$2,474,778,638	$281,895,300	$(997,012,214)	$(110,939,597)	$9,461,309,605	$2,392,914,183	$3,199,966,268	$2,759,146,040	$298,334,950

SCHEDULE SHOWING DIFFERENCES BETWEEN AMOUNTS

OF ACCRUED INTEREST REPORTED BY AGENT BANKS

AND AID ON 10 COOLEY LOANS AS OF JUNE 30, 1971

Loan number	Location of borrower	Agent bank balance	AID Balances	Difference
386-E-100	India	Rs. 1,653,750.00 $ 217,598.68	Rs. 1,451,406.25 $ 190,974.51	Rs. 202,343.75 $ 26,624.17
386-E-122	"	Rs. 5,156,756.11 $ 678,520.54	Rs. 3,159,999.99 $ 415,789.47	Rs. 1,996,756.12 $ 262,731.07
386-E-127	"	Rs. 413,887.94 $ 54,458.94	Rs. 473,524.00 $ 62,305.78	Rs. (59,636.06) $ (7,846.84)
386-E-154	"	Rs. 36,201.15 $ 4,763.31	Rs. - $ -	Rs. 36,201.15 $ 4,763.31
386-E-175	"	Rs. 159,999.98 $ 21,052.63	Rs. 80,000.00 $ 10,526.32	Rs. 79,999.98 $ 10,526.31
386-E-105	"	Rs. 2,117,339.50 $ 278,597.30	Rs. - $ -	Rs. 2,117,339.50 278,597.30
386-E-179	"	Rs. 320,000.00 $ 42,105.26	Rs. - $ -	Rs. 320,000.00 $ 42,105.26
386-E-181	"	Rs. 85,000.00 $ 11,184.21	Rs. - $ -	Rs. 85,000.00 $ 11,184.21
391-E-146	Pakistan	Rs. 154,015.00 $ 32,369.69	Rs. - $ -	Rs. 154,015.00 $ 32,369.69
391-E-116	"	Rs. 17,356.18 $ 3,647.79	Rs. - $ -	Rs. 17,356.18 $ 3,647.79
Total		$ 1,344,298.35	$ 679,596.08	$ 664,702.27

GAO note: Rupees (Rs)

SEP 15 1972

Mr. Oye V. Stovall
Director
International Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

I am forwarding herewith a memorandum dated August 31, 1972, from Mr. Charles F. Flinner, Director of Office of Financial Management, together with a covering memorandum dated September 5, 1972, from Mr. James F. Campbell, Assistant Administrator for Program and Management Services, which constitute the comments of A.I.D. on the U. S. General Accounting Office's draft report titled, "Audit of Loan Program Financial Statements for Fiscal Years 1971, 1970 and 1969." I am also forwarding a supplemental statement dated September 11, 1972, which contains the Office of Audit's comments on audit coverage aspects of the draft report.

Sincerely yours,

Edward F. Tennant

Edward F. Tennant
Auditor General

enclosures: a/s

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6
UNITED STATES GOVERNMENT

Memorandum

TO : AG, Mr. Edward F. Tennant DATE: SEP 5 1972

FROM : AA/SER, James F. Campbell James F. Campbell

SUBJECT: GAO Draft Audit Report on the A.I.D. Loan Program Financial Statements

I have carefully reviewed both the report and the SER/FM comments on the auditors' findings and recommendations.

I believe the GAO report is helpful in identifying again that the A.I.D. accounting system must be responsive to its management needs. It has been recognized that there are deficiencies in the products of the present loan accounting system. Much attention and considerable resources have been devoted to the correction of those deficiencies. The GAO report seems to confirm that most of the significant problems have in fact been overcome. I have noted no real indications in the audit report that A.I.D. management of its loan program suffered from the accounting system deficiencies. I believe it is unfortunate that so much time and expense, on the part of both GAO and A.I.D., have been devoted to the more insignificant, irrelevant features of the system.

It seems to me the auditors have not covered an important question - should our loan program and its accounts come under the Government Corporation Control Act? I believe it would be useful for both the Congress and A.I.D. that we examine the objectives of the Corporation Control Act in relation to the development program we manage.

cc: SER/FM, Mr. Flinner

UNITED STATES GOVERNMENT

Memorandum

TO : AG, Mr. Edward F. Tennant 5893 NS — DATE: 31 AUG 1972

Through: AA/SER, Mr. James F. Campbell 5883 NS

FROM : SER/FM, Charles F. Flinner 525 SA-12

SUBJECT: General Accounting Office Draft Report, "Audit of Loan Program Financial Statements for Fiscal Years 1971, 1970 and 1969"

The subject draft report has been reviewed by appropriate staff members of the Office of Financial Management and, as appropriate, by staff members of other interested offices of the Agency and the Overseas Private Investment Corporation.

The comments, as a result of these reviews, are arranged in approximately the same order as those set forth in the draft report.

In general, the tenor, the table of contents and the titled headings throughout the entire draft report would give an uninformed reader the impression that there are flagrant deficiencies in the Agency's administration and management of its loan program, which is far from the actual case.

The Digest properly states that the audit was made in accordance with the Government Corporation Control Act and was an audit of the Agency's financial statement. It does not, however, go on and properly present to the reader of the digest that the AID Loan Program is not a corporate entity, is not operated or managed as an individual self-sustaining or revenue producing operation but is only additional appropriation accounts that are made available for loans to developing countries on concessional terms to assist in their economic development. As such the maintenance of accounting records and processing of accounting transactions so that financial statements are prepared and issued in accordance with principles and procedures applicable to commercial corporate transactions is of considerable less importance and significance to the managers and operators of the loan program. The fact that (a) fiscal year end financial statements do not reflect each dollar of accrual; (b) the standard used for write off of delinquent loans is more lenient than normal commercial practices; (c) administrative expenses allocated to the loan program may or may not be understated; and (d) accounting transactions corrected or recorded by the Agency in subsequent fiscal years are not reflected in the prior fiscal year end financial statement does not mean the loan programs are not administered and managed properly and effectively, the loan portfolio and status of loans are not accrued and correct, billings and collections of principal and interest are not timely and accurate, and the utilization of personnel is not efficient. While there is no argument against the desirability of a financial statement presentation that follows accepted accounting standards and

GAO note: Page numbers in this appendix refer to pages in our draft report.

principles to the letter, the fact that in the interest of efficiency and following the directive of reduction of government direct hire personnel, the use of personnel to perform these accounting tasks rightfully takes on less priority than using the personnel to properly administer the loan program and the loan portfolio.

It is recommended that the first paragraph in the digest be expanded to properly reflect the insignificance of a corporate type audit of the financial statements and to state that the findings and conclusions of such an audit should not be interpreted to adversely reflect on the administration and management of the AID loan programs or that the loan funds are not being used effectively to carry out the purpose for which they were appropriated.

GAO note: AID also made detailed comments on our draft report. These comments were considered and recognized by revisions to the report, and are not reproduced in this final report.

PRINCIPAL OFFICIALS

RESPONSIBLE FOR ADMINISTRATION OF THE LOAN PROGRAM

DISCUSSED IN THIS REPORT

	Date appointed
AGENCY FOR INTERNATIONAL DEVELOPMENT	
ADMINISTRATOR:	
William S. Gaud	Aug. 1966
John A. Hannah	Mar. 1969
ASSISTANT ADMINISTRATOR FOR ADMINISTRATION:	
H. Rex Lee	Sept. 1967
Gov. Duane Dwinell	June 1969
James F. Campbell	Aug. 1971
CONTROLLER:	
Charles F. Flinner	Sept. 1964
AUDITOR GENERAL:	
Edward F. Tennant	June 1969
OVERSEAS PRIVATE INVESTMENT CORPORATION	
PRESIDENT & CHIEF EXECUTIVE OFFICER:	
Bradford Mills	Jan. 1971
EXECUTIVE VICE PRESIDENT:	
Herbert Salzman	Jan. 1971
GENERAL COUNSEL:	
Marshall T. Mays	Mar. 1971
TREASURER:	
William A. Pistell	May 1971
DEVELOPMENT LOAN COMMITTEE	
CHAIRMAN:	
John A. Hannah	Mar. 1969

	Date appointed
ASSISTANT ADMINISTRATOR, BUREAU FOR PROGRAM AND POLICY COORDINATION, AID:	
Paul G. Clark	Feb. 1968
Ernest Stern	Aug. 1969
ASSISTANT SECRETARY, BUREAU OF ECONOMIC AFFAIRS:	
Anthony M. Soloman	Aug. 1967
Philip H. Trezise	July 1969
CHAIRMAN OF THE BOARD OF DIRECTORS OF THE EXPORT-IMPORT BANK OF THE UNITED STATES:	
Harold F. Linder	Nov. 1961
Henry Kearns	Mar. 1969
ASSISTANT SECRETARY OF THE TREASURY:	
John R. Petty	May 1968
ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS:	
K. N. Davis, Sr.	Jan. 1969
Robert McClellan	Sept. 1970

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