

## RESULTS OF THE INSPECTOR GENERAL'S AUDIT OF AID

(Updating *Backgrounder* No. 618, "Inspector General Audits Reveal Foreign Aid Failures and Boondoggles," November 23, 1987, *Backgrounder Update* No. 78, "More Audits Uncover Aid Failures," June 8, 1988, and *Backgrounder Update* No. 90, "New Audits Find More Foreign Aid Waste," December 13, 1988.)

Congress soon will consider a \$5.9 billion funding request from the Agency for International Development (AID), the State Department agency that provides foreign aid to less developed countries in an attempt to alleviate Third World poverty. Congress and the Bush Administration also are considering a revision of the 1961 Foreign Assistance Act, which governs AID.

While AID deserves funding, it needs a clear revised statement of its goals even more. That AID remains plagued by problems is apparent from recent audits by AID's Inspector General (IG). Among the audits:

**Sri Lanka.** In several AID projects, among them a rice research and a water management project, AID contributions were made under terms of a contract with the government of Sri Lanka, which agreed to match U.S. aid. The IG audit raised considerable questions about the amount of Sri Lankan funds actually contributed. In some cases there were no records of contributions at all. Reports the IG: "USAID/Sri Lanka did not in all cases ensure that the reports adequately addressed host country contributions. . . . Therefore, USAID was uncertain if the Government of Sri Lanka contributed its required contributions."

The audit also finds that equipment purchased nearly six years ago costing some \$500,000 still was standing idle.

**Sudan.** AID in 1981 agreed to give \$14.5 million to Sudan's Agricultural Planning and Statistics Project with the understanding that an agreement would follow on Sudan's responsibilities. An IG audit, however, finds that AID gave Sudan the funds before it was determined how much Sudan was to contribute. Because of the resulting uncertainty of funding, the project was completed much later than planned.

**Liberia.** The Rural Development Institute (RDI) in Liberia trains technicians to improve agricultural practices and productivity in depressed areas. Between 1983 and 1985, AID gave \$2 million to the Institute. An IG report on this project reveals a ". . . lack of accountability and supporting documentation of AID monies and resources." The audit finds a serious lack of program oversight by the Institute and widespread neglect of accountability and documentation. There was, for example, no explanation in the Institute's balance sheets concerning many transactions. It was also impossible to distinguish between abuse and fraud. "As a result of this serious lack of control there was ample scope for misuse of funds."

**Burma.** The Primary Health Care II Project seeks to improve health care in rural Burma. AID agreed to provide the project \$9.3 million in U.S. dollars plus an additional \$4.3 million in U.S.-owned Burmese currency. An IG audit revealed that, due to poor recordkeeping, there was no record of how the \$4.3 million in local currency was spent or whether it went for project purposes at all. AID neglected its own procedures for reviewing how its funds were spent. In addition, the audit found that \$4.9 million of commodities for the project were purchased from foreign sources rather than from required U.S. sources. Finally, \$3.6 million in urgently needed medical supplies were held by Burmese customs for over a year; when they were released, the supplies spent seven more months in AID warehouses. During this time, the AID project suffered severe shortages of these supplies.

**OMB Regulations.** The U.S. Office of Management and Budget (OMB) requires all federal agencies receiving funds from the U.S. Treasury to keep accurate records on accounts payable. An IG audit has discovered that AID has been negligent in keeping records of past due accounts of AID project loans and assessing interest charges. "The audit showed that AID did not fully comply with OMB A-129 guidelines relating to: servicing, following up, collecting and writing off receivables. Interest charges on the outstanding accounts were not updated. Identifiable claims were not always converted to Bills for Collection in a timely manner."

Effective control and spending of AID project funds are necessary for the success of the projects. Yet IG audits have found many examples of mismanagement. Host government contributions and actual spending on projects are not well monitored. AID collection from foreign governments of interest payments on past loans is haphazard. Project mismanagement means that, rather than helping to alleviate the causes of poverty, one of AID's primary goals, AID programs actually can contribute to continued underdevelopment. As Congress considers AID's request for funds and as Congress and the Administration consider revising AID's charter, greater efforts are needed to assure that AID projects are managed effectively.

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For further information:

AID Inspector General, "Semiannual Report to the Congress," April 1, 1988 to September 30, 1988.

AID Inspector General, "Audit of AID's Compliance With Office of Management and Budget Circular A-129 Guidelines on Managing Accounts Receivable," IG audit no. 87-02, April 28, 1987.

AID Inspector General, "Audit of USAID/Sri Lanka Reporting on Completed Projects," IG audit no. 5-383-87-5, July 7, 1987.

AID Inspector General, "Non-Federal Audit of The Liberia Rural Development Institute," IG audit no. 7-669-86-04-N, September 29, 1986.